EUROPE'S BUSINESS NEWSPAPER

FINANCIAL TIMES

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Finland Fmk7.00	Lebanon ...£L250.00	Switz SF2.30
France FFr7.00	Lux LFr48	Taiwan .... NT$65
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Hong Kong....HK$12	Morocco Dh6.00	Turkey L600
Iceland Ikr125	Neth Fl3.00	UAE Dh6.50
India Rup15	Norway Nkr10.00	USA $1.00

EMPLOYMENT

Bonn tackles the pensions bulge

Page 24

World News

Hopes rise for peace accord in Afghanistan

Hopes for a peaceful resolution to the Afghan conflict rose after Moslem resistance leaders pledged to allow Soviet troops to complete their withdrawal from the country unharmed and Moscow's chief negotiator indicated that conditions were right for the establishment of a broad-based government in Kabul. Page 24

Bhutto backs Khan

Benazir Bhutto, Pakistani Prime Minister, and her political rivals agreed to back acting President Ghulam Ishaq Khan in a presidential poll on December 12. Page 6

Tibet party reshuffle

China has replaced Wu Jinghua, Tibet's top party official, with a younger, possibly reformist leader with experience of other minority regions. Page 6

Strike weakens

France's gruelling transport strike appeared to weaken as four of five trades unions indicated they were prepared to return to work. Page 2

Torture suit settled

Fr Smangaliso Mkhatshwa, South African churchman, said he had accepted a government payment of R25,000 ($10,000) in an out-of-court settlement of a civil suit in which he alleged he was tortured by the country's security forces.

US lifts bomb ban

The US has lifted a six-year-old ban on the sale of cluster bombs to Israel after the Israeli Government agreed not to use the weapons against civilians.

Arafat meets Jews

Yassir Arafat, chairman of the Palestine Liberation Organisation, held talks in Stockholm with five influential American Jews. Page 3

Swiss open account

Switzerland's Supreme Court granted US investigators access to the bank account of an Israeli arms dealer who acted as a middleman in the Iran-Contra scandal.

Soviet home sell-off

Soviet Politburo authorised the sale of state homes to their tenants.

Ghana poll begins

Ghanaians voted for the first time in almost a decade in district elections expected to ease a return to democracy.

Swapo threat

Swapo, Namibian nationalist group, threatened to resume its guerrilla war for the independence of the vast desert territory after peace talks were suspended last weekend.

Chadli shake-up

President Chadli Bendjedid of Algeria drafted younger officers into the top of the military command in a shake-up to avert a backlash against his political and economic reforms, diplomats said.

Missiles withdrawn

Belgium will become the first of four Nato deploying countries to withdraw its US nuclear cruise missiles on December 13.

Reagan meets press

President Ronald Reagan of the US will hold the final news conference of his presidency tomorrow.

Business Summary

Nomura buys 10% stake in French stockbroker

NOMURA, largest Japanese securities group, announced a stake of 10 per cent in François-Dufour Kervern, French stockbroker. It is the first stake to be taken in a French broker by a Japanese house, and Nomura's first such holding in Europe. Page 25

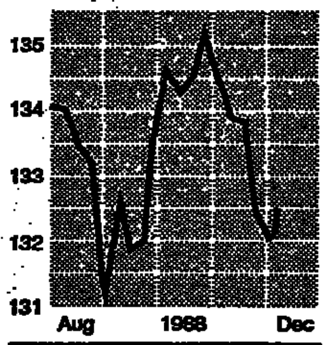
GENERAL ELECTRIC Company of UK, produced unexpectedly strong first half figures showing a 10 per cent increase in pre-tax profits to £313m ($582) against £284m a year ago. Page 25

GATT has found the US discriminates against foreign companies in applying laws on patent infringement. Page 7

UK GILTS: The rally in sterling brought buyers for gilts and pushed interest rates lower. The 9 per cent Treasury stock due in the year 2008 gained 11/32 on the day to yield 9.19 per cent. Page 31

Gilts

FT-A All-Stocks index



LONG ISLAND Lighting, US power company, faces a possible multi-billion dollar suit. Page 26

IKEA, Swedish furniture company, plans to expand its activities in Poland. Page 6

INTERNATIONAL Business Machines, world's largest computer maker, announced a management shake-up at its entry systems division. Page 26

FREEPORT McMoRan Copper, part of the New Orleans-based natural resources group, looks set to double its copper production in Indonesia. Page 29

ECCO, France's leading temporary employment agency, expects net profits this year to rise 70 per cent to FFr330m ($56m). Page 26

JAPAN'S Gross National Product surged ahead at an annual rate of 9.3 per cent in the July-September quarter. Page 6

JAPAN'S Finance Ministry has granted a request by Japan Bond Trading to act as a broker in US Treasury bonds and notes in Tokyo. Page 31

MALAYSIA'S Government is shaking up stock exchange management as part of its plan to develop the country's capital market. Page 30

INDIA'S capital markets are experiencing an explosive period of growth, with a substantial increase in the volume of funds being raised by the private sector in new equity and bond issues. Page 30

JUDGE CORPORATION, New Zealand investment company, was placed in receivership in a move which appears to spell the end of the company's struggle to survive. Page 29

CRA, Australian mining group, and its 67 per cent-owned Comalco subsidiary announced special dividends which will be tax-free in most shareholders' hands. Page 29

KAUFMAN and Broad, US manufactured housing, mortgage and life insurance group, is planning a major restructuring. Page 26

DSW, West German shareholder protection organisation, is threatening to take Deutsche Bank to court. Page 28

Some Soviet enlightenment remains in the dark

By Quentin Peel in New York

OUR flight was christened Glasnost One as soon as it was invented. It was the first time the Soviet Union had ever flown foreign correspondents half-way around the world to cover the travels of a Soviet leader.

It says a lot for Mr Mikhail Gorbachev's perception that media coverage of his travels has become an essential part of Soviet international diplomacy, just as it is for the US President.

For a Western journalist, it also provides the extraordinary sensation of travelling around the world in a cocoon of Soviet officialdom.

It means being whisked through immigration formalities at John F Kennedy airport with the assistance of a lanky Soviet security man, and sailing into New York City on an air-conditioned bus – with a Soviet driver, Soviet chaperone, and Soviet pop music on the loudspeaker system.

If glasnost means openness, however, then the exercise still leaves as much to be desired as its equivalent in the Soviet media. Providing information is not what it is all about.

Some 70 Moscow-based foreign correspondents have paid almost $5,000 each to follow the Soviet leader on a chartered Aeroflot Ilyushin jet to New York, Havana and London.

In spite of having a captive audience, eager to be battered by the propaganda machine, the Soviet Foreign Ministry has stuck to the tradition of keeping the foreign media in the dark. Our companions consist of two humble (but cheerful) "minders," neither of whom has any better idea of what is planned for Mr Gorbachev's expedition, or his speeches, than any of the Aeroflot hostesses.

The airline, however, is making a big effort. Conscious of its reputation as one of the Soviet Union's least attractive export-earners, the traditional surly service and standard rubber chicken menu (for breakfast, lunch or dinner, regardless), has been replaced by smiles, a modest choice of menu, even caviar, and a drinks trolley with complimentary vodka.

The trouble is that the Ilyushin 62 cannot quite make it all the way from Moscow to New York, so we had to stop in Gander for three hours to

Continued on Page 24

Bush appoints five more to top posts

By Nancy Dunne in Washington

PRESIDENT-ELECT George Bush yesterday filled five more top jobs in his Administration. They include Ms Carla Hills as US Trade Representative, the first woman in his Cabinet.

Also named yesterday were Mr Robert Mosbacher Sr, a Houston financier, to be Commerce Secretary; Mr Michael Boskin, a California economist, to head the Council of Economic Advisers; Mr Thomas Pickering, currently ambassador to Israel, to be UN Ambassador, and Mr William Webster to remain as head of the Central Intelligence Agency.

Conspicuously absent from yesterday's announcement was the appointment of a defence secretary. Mr Bush has reportedly agreed to name Mr John Tower, a former senator from Texas, but is said to be searching for a strong deputy to manage the department.

Mr Bush has been under considerable pressure from Capitol Hill and the press to step up the pace of his nominations. He was criticised for not naming his trade officials in time to attend the mid-term review of international trade talks now underway in Montreal.

The appointments of Ms Hill and Mr Pickering are the most surprising. Ms Hill, a former secretary of the Department of Housing and Urban Development and assistant attorney-general under President Gerald Ford, has had little experience with trade issues. She is a well-connected Republican and known around Washington as intelligent and a good administrator. Mr Bush said: "She stands for free trade and fair trade."

Her appointment fulfils Bush's desire to have at least one woman in his Cabinet.

Mr Mosbacher is a close supporter of the President-elect and was finance chairman of his presidential campaign. Mr Bush described him as "a friend of longstanding" and "a very successful leader." He will share responsibility for trade issues with Ms Hill, and like her, will be new to the subject. He has a long-time involvement in the oil and gas industry in Texas.

It will be Mr Mosbacher's task to implement both the new free trade agreement between the US and Canada and measures provided for in this year's tough new trade law to open markets for US goods.

He is the first of Mr Bush's nominees without previous government experience, although the President-elect pledged to bring new faces to Washington.

The appointment of Mr Boskin, a Stanford University economics professor, has long been expected. He was considered Mr Bush's chief economics adviser throughout the presidential campaign.

Mr Pickering has had wide diplomatic experience. He has served as ambassador to Nigeria and El Salvador before going to Israel in 1985.

Mr Webster has been reportedly asked to stay as director of the CIA on an interim basis. Mr Webster, 64, has been CIA director since 1987 when he succeeded Mr William Casey. Mr Webster had served nine years as director of the Federal Bureau of Investigation.

The appointment of Ms Hills, Mr Pickering, and Mr Mosbacher are subject to Senate approval by a two-thirds margin. Mr Webster has already been confirmed and Mr Boskin's post is not subject to approval.

Poll hits back at Bush critics, Page 2

An international group of more than 3,000 farmers demonstrate their opposition to free trade in agriculture outside Montreal's Palais des Congres where the Gatt talks are being held

IMF raises growth forecast for leading industrial states

By Peter Montagnon, World Trade Editor, in Montreal

THE INTERNATIONAL Monetary Fund has revised upwards its estimate for growth this year in the seven leading industrial countries by a further ¼ percentage point to 4¼ per cent, Mr Michel Camdessus, IMF managing director, said in Montreal yesterday.

Speaking to journalists before addressing the second day of the trade ministers' meeting, he said this meant that growth in the seven countries would be fully 1¼ points higher than that originally forecast. At the time of the IMF annual meeting in Berlin it was expected to be 4 per cent.

Growth of 4¼ per cent this year would represent the strongest rate since the early 1970s. Mr Camdessus said the higher-than-expected growth rate provided "a window of opportunity" for developed countries to dismantle trade barriers without which growth could not be sustained. He cautioned, however, that the growth rate of the seven leading industrialised nations was likely to slow to 3¼ per cent next year.

The IMF managing director later told the meeting called to review the liberalisation of trade under the auspices of the General Agreement on Tariffs and Trade: "The quest for making growth everywhere less vulnerable to external shocks will continue to fall short until industrial and developing countries alike forgo reliance on protectionist props."

The IMF's latest growth estimates include an upward revision of inflation in 1988 to 3.2 per cent from 3 per cent at the time of the Berlin meeting, but it has left unchanged its forecast of growth next year of 3¼ per cent.

In an implicit reference to the recent half-point increase to 10½ per cent in the US prime rate, Mr Camdessus said that the fact that monetary policy was being tightened at this stage was not so much a point of concern.

However, the movement in rates did suggest that fiscal policy was not carrying enough strain, he said.

Mr Camdessus characterised the recent pressure on the dollar as fluctuations within a narrow margin.

He cautioned against the idea of a ministerial meeting of the Group of Seven leading industrial nations shortly after the Bush Administration takes office. The G7 nations are the US, Japan, West Germany, France, Britain, Canada and Italy.

More Montreal reports, Page 7

UK says it will keep powers to detain terrorists

By Charles Hodgson and Michael Cassell in London and Kieran Cooke in Dublin

THE UK Government last night signalled its determination to maintain the fight against terrorism despite criticism of its planned legislation by the British Labour Party and the European Court of Human Rights.

Mr Douglas Hurd, the Home Secretary, told the House of Commons that the Government intended to retain the existing powers of police detention under anti-terrorism legislation despite a European Court ruling that the seven-day period without access to a court breached the European Convention on human rights.

The Government's proposals exposed continuing divisions within the Labour Party over its policy towards Northern Ireland. Two members of Labour's front bench team tendered resignations to Mr Neil Kinnock, Labour leader.

Both objected to the party's decision to abstain in last night's Commons vote on the new Prevention of Terrorism Bill, which renews and makes permanent existing powers to arrest and detain terrorist suspects without trial and to impose exclusion orders. It also gives new powers to police to seize funds destined for terrorist organisations and cuts remission on sentences for serious terrorist offences.

Mr Hurd told MPs that the powers of detention were fully justified to give police sufficient time to carry out complete inquiries. He indicated, however, that the Government might be prepared to meet the Strasbourg-based court's objections by introducing a judicial review of the detention before the seven days were up.

Mrs Margaret Thatcher, the British Prime Minister, stood by her criticism of Belgium and Ireland over the extradition of Mr Patrick Ryan, the Irish former priest wanted for alleged terrorist offences in Britain. In Dublin, however, Mr Charles Haughey, the Irish Prime Minister, strongly defended present Irish extradition procedures and said he could not accept Mrs Thatcher's suggestion that extradition was not working properly.

Speaking at the start of a special debate in the Dail, the Irish Parliament, called to make permanent extradition procedures introduced last year, Mr Haughey also defended his Government's handling of the Ryan case.

Morgan closes UK securities business with 450 job losses

By David Lascelles, Banking Editor, in London

MORGAN GRENFELL, one of the City of London's leading merchant banks, yesterday shut its UK securities business with the loss of 450 jobs.

The closure, which was forced on the group by mounting losses, is by far the largest seen in the City since it was reshaped by deregulation, known as Big Bang, in 1986. It highlights the severe conditions which now prevail in the financial markets.

Morgan had originally planned to announce the cuts tonight, but a leak forced it to make a hurried statement to staff as they arrived for work yesterday morning. The resulting disruption meant that one part of the business, gilt-edged dealing, continued to trade for an hour, apparently unaware that it had been closed down.

There were reports of emotional scenes in and around Morgan's offices in Finsbury Circus and considerable bitterness was expressed by staff.

But one executive in the dealing rooms said: "On the whole, people behaved in a mature way." Details of the job losses and the redundancy terms will be given to staff soon. Those leaving will be offered job counselling services.

Other City of London houses reported that they received many calls during the day from Morgan staff seeking jobs. Some of them said they would take on well-qualified people, despite a slack jobs market.

Morgan Grenfell has withdrawn from market making in both equity securities and gilt-edged stock. Mr John Craven, the chief executive, said that the decision had been taken because "competitive conditions for the foreseeable future will be such that it is no longer sensible for us to devote significant capital to it."

He disclosed that in the first 11 months of this year Morgan had lost £18m ($33.5m) on its equities business and £4.5m on gilts. In neither market had it achieved a sufficient share of the business to warrant going on. The recent price war triggered by market makers trying to raise their share of a shrinking market had precipitated the closure decision.

He said that Morgan would now concentrate on its three core businesses, asset management, banking and corporate finance, each of which was highly profitable and had good growth prospects. Morgan will keep on a small agency broking and research business as an adjunct to its corporate finance operation employing possibly two dozen people. It will also retain its US stockbroking arm, C. J. Lawrence.

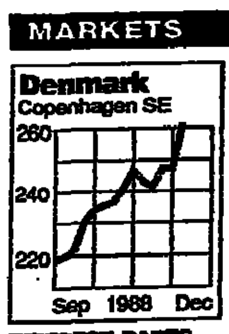
The closure will release about £35m in capital which has been supporting the market-making operation, although some £15m of this will go into write-offs and redundancy payments. Mr Craven

Continued on Page 24

MARKETS

Denmark

Copenhagen SE



STERLING

New York lunchtime
$1.86375 (1.86825)

London:
$1.8655 (1.87)
DM3.2325 (3.2246)
FFr11.0350 (11.0135)
SFr2.7100 (2.7025)
Y227.0 (same)

DOLLAR

New York lunchtime
DM1.73345 (1.72595)
FFr5.9205 (5.8960)
SFr1.45375 (1.44485)
Y121.775 (121.525)

London:
DM1.7325 (1.7240)
FFr5.9150 (5.89)
SFr1.4525 (1.4450)
Y121.70 (121.45)

STOCK INDICES

New York lunchtime
Dow Jones Ind. Av.
2,126.07 (+2.31)
S&P Comp
275.22 (+0.29)

London:
FT-SE 100
1,767.4 (+5.8)
World:
138.99 (Mon)

Tokyo
Nikkei Ave
29,669.38 (+54.70)

Frankfurt
Commerzbank
1,603.2 (+13.3)

INTEREST RATES

US lunchtime
Federal Funds 8⅝%
(same)
3-mth Treasury Bills:
yield: 8.25% (8.24)
Long Bond: 99⅝ (98⅞)
yield: 9.03% (9.12)

London
3-month interbank:
close 13 3/16% (13⅛)

GOLD

New York latest
Comex Feb
$431.9 (436)

OIL

Brent 15-day (Argus)
$14.275 (-40) (Dec)
West Tex Crude
$15.305 (-.26) (Jan)

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Bhutto's vision for Pakistan already masked in red tape

Benazir Bhutto admits she must rule her divided country with the participation of an entrenched and powerful bureaucracy if she is to succeed in her aim of bringing lasting and substantial change to Pakistan. Page 10

EUROPEAN NEWS

Paris transport peace nearer after talks

By George Graham in Paris

THE FRENCH government last night appeared to be a step closer to a settlement of the public transport conflict which has brought Paris to a near standstill for the last week.

Negotiations late into the night on Monday led to a draft agreement between the management of the Paris RATP public transport system and moderate trade union representatives, who yesterday sought the backing of their members before signing the accord.

The Communist CGT union, however, which represents a large majority of RATP workers, said last night that it would not sign the agreement. The CGT also announced a nationwide two-and-a-half-day rail strike, starting next weekend.

Mr Henri Krasucki, leader of the CGT, appears nevertheless to have left the way open for a possible abandonment of his union's demand for an increase of FFr1,000 (£90) a month for RATP workers, allowing room for further negotiations.

At the same time Mr Andre Lajoinie, the Communist Party's parliamentary leader, said that his group would not vote for the motion of censure laid down yesterday by the right-wing RPR party. The abstention of the 24 Communist members means the motion will not be passed.

Both the UDF, the RPR's opposition partner, and the more centrist UDC, have agreed to vote for the motion, but have been deeply embarrassed by what they regard as an ill-judged gesture. Both groups refused to sign the motion.

Even if a settlement is reached, Paris's public transport system is expected to take at least a week to get back to normal.

The heart of the strike has been in the maintenance workshops, and much of the rolling stock could not be put back into service immediately.

Meanwhile, continued strike action caused Air France to cancel two flights to London yesterday, with another three London flights likely to be cancelled today, and the southern city of Marseilles remained hampered by rail, shipping and postal strikes.

France to hold monetary targets unchanged

By George Graham in Paris

FRANCE will maintain its monetary targets unchanged next year, Mr Jacques de Larosière, governor of the Bank of France, announced yesterday.

Mr de Larosière said that the only officially published monetary target, the narrow aggregate M2, which includes notes and coin, sight deposits and savings accounts, would be maintained for the third year running at 4 to 6 per cent growth.

Growth in M2 significantly undershot this target band in the first half of 1988 but it has come back within the band, although still well below the likely growth of 6.5 per cent in nominal gross domestic product this year.

With nominal GDP likely to grow by just over 5 per cent in 1989, Mr de Larosière said the same 4 to 6 per cent band should help to control inflationary pressures without representing an obstacle to economic growth.

The rapid growth of consumer credit, however, continues to worry the Bank of France.

Mr de Larosière said the rate of expansion of consumer credit had slowed to a rate of 22 per cent a year, well below the level of the two previous years but still very high. He said the Bank of France would take measures to monitor the growth of credit and the increase in default risks.

Pöhl hits back at critics of Bush team

By Andrew Fisher in Frankfurt

MR Karl Otto Pöhl, president of the Bundesbank, West Germany's central bank, yesterday defended US President-elect George Bush's new economic and financial team against criticism in financial markets, saying he expected it to take the necessary action to correct the high US deficits.

This, he told the American Chamber of Commerce in Frankfurt, was a precondition for the continuation of non-inflationary growth in industrial economies. The other was continuation of fairly tight monetary policies by most industrial countries to keep inflationary expectations low.

"Based on these two premises, I believe that we can face next year's economic developments with confidence and that we have a chance to experience the longest economic upturn that has ever occurred this century." Most countries – the UK was "the most eye-catching exception" – had kept inflation well under control.

Criticism of Mr Bush's choices of key officials was "completely wrong", he said. "The team responsible for economic and financial policy in America – and I have known them all for many years – is very professional and very capable."

Thus the new Administration could be expected to set a positive signal for the markets by indicating that the problem of the twin trade and budget deficits would be vigorously tackled. "I can't imagine that such a team would not use the window of opportunity that opens at the start of a legislative period to set the right course."

On monetary policy, Mr Pöhl said most industrial countries had kept to relatively high real interest rates in the 1980s, thus curbing inflationary expectations. Commenting on Germany's monetary growth, with targets overshot in the past three years, he said next week's Bundesbank decision on the 1989 target range for the broad M3 aggregate would "maintain confidence in the stability of the D-Mark."

Soviet Union to sell state homes to tenants

By John Lloyd in Moscow

THE SOVIET Politburo, taking a further leaf out of the book of the British Conservatives, has authorised the sale of state homes to their tenants. The decision, taken at the weekend, was only made clear yesterday. Not clear, however, is what advantages the tenant will derive from the purchase.

Tenants of flats owned by enterprises, local soviets and government institutions – the main landlords – are empowered to sell on receipt of 50 per cent of the value of the home, and an agreement to pay the rest over 10 years.

Given the (to Western eyes) tiny dimensions of Soviet flats and their frequently dilapidated condition, the prices are not terribly low. A two-room apartment averaging 45 square metres will cost Roubles 10,000-12,000 (£9,500-11,500), a three room appartment comes in at Roubles 15,000-16,000.

The flats will only be sold to the person who is registered as living there. However, war veterans will be allowed to buy flats which are being reconstructed, providing they bear the cost of the repairs.

Mr Piotr Feodorov, head of housing section at the Soviet Trade Unions Centre (the unions handle the housing of many workers) said that a flat, once sold, would become "personal property and you can do anything with it. It can be inherited, or you could sell it." It is not likely, however, that estate agents will spring up rapidly on city street corners.

The need to put down Roubles 5,000-6,000 will deter most people, while others may ask what benefit ownership will convey when flats can even now usually be passed on to members of the same family (provided they are registered there) and tenants have freedom to repair and repaint them – if they can get the paint.

● The Soviet consumer, an increasingly embattled and embittered character, may or may not have been cheered to read in yesterday's issue of Sotsialisticheskaya Industriya that his or her suspicions of being cheated in stores were justified.

In a sharp piece of investigative reporting, Olga Berezhneya reveals that packing and pricing equipment introduced in Leningrad was refused by shops because, by making clear the exact weight and price of the goods, it cut out cheating. The equipment had to be sent back and the old methods – which allowed ample scope for cheating – retained.

Three more killed in Azerbaijan violence

By John Lloyd in Moscow

THE official death toll in the latest bout of ethnic violence in Soviet Armenia and Azerbaijan was raised again yesterday, when a Soviet Government spokesman said three more people had died in Azerbaijan, and six more people had been injured.

This brings to 31 the number of dead in clashes between troops, Azeris and Armenians over the past two weeks, and to at least 63 the number killed in the trans-Caucasian violence since riots in the Azerbaijani city of Sumgait in February.

The spokesman would not say how and where the three had died, but he denied it was as a result of action by the Soviet army in clearing the central square in Baku, the Azerbaijani capital, on Sunday and Monday.

The army fired shots above the heads of the Baku crowd. Some 17 injuries have been reported in the city, but an Azerbaijani foreign ministry spokesman said these were not caused by bullets. "No arms were used against the people," he said.

Refugees continued to pour into both Baku and the Armenian capital, Yerevan. Estimates of their number are now exceeding 100,000 on each side. The Komsomol (Youth League), the Trade Unions Central Committee and the Council of Ministers yesterday pledged funds and support to the refugees, especially to the children.

Homes are being found for them in union health centres and in Komsomol pioneer camps within Armenia and Azerbaijan. This follows a strongly-worded statement, signed by Mr Mikhail Gorbachev, the Soviet leader, on Monday, promising stern measures against those who forced workers to leave their jobs on ethnic grounds.

In Yerevan, a senior member of the Karabakh Committee, Mr Levon Derbedrosyan, said that the decrees from Moscow would have no more effect than others issued in the nine months since the Sumgait killings.

He said that reports reaching the Committee, an independent group of intellectuals which has co-ordinated the nationalist movement, indicated that Armenian villages near the Azerbaijani city of Kirovobad (the scene of deaths and injuries last week) were completely blockaded.

He also said that Armenians in government and active in the Committee still expected an early announcement that administrative control of Nagorno-Karabakh, the disputed Armenian-populated enclave in Azerbaijan, would be taken out of the Azeri's hands.

Armenian hopes persisted despite a statement from the Communist Party's central committee in Moscow that Karabakh's territorial status would not change.

Blow to EC Commission on TV controls

By Raymond Snoddy

THE Council of Europe seems to have won a significant victory over the European Commission over attempts to create a basic legal framework for cross-border television in Europe.

Last month in Stockholm ministers from 22 European countries agreed the basis of a legal framework, despite warnings from Commission officials that their proposed European Community directive should take precedence over the planned Council of Europe convention.

The heads of government of the Community have now made clear their approval for the approach of the Council of Europe, the Strasbourg-based organisation mainly involved in human rights.

In a little-noticed paragraph in the conclusions issued after the meeting at Rhodes at the weekend, the heads of government of the Community said they "consider it important that the Community's efforts should be deployed in a manner consistent with the Council of Europe convention."

The main change could involve the Commission having to drop attempts to include provisions in the directive that all television channels should have 60 per cent European-made content within three years.

The Council of Europe line is that trans-border broadcasters should move, where practicable, to a majority of European content, but without setting a time limit.

Kososvo party leaders divided over ethnic unrest

By Aleksandar Lebl in Belgrade

COMMUNIST Party leaders in the southern Yugoslav province of Kosovo are deeply divided over how to react to the ethnic unrest, pitting the Albanian majority against the local Serbian minority, that has shaken their region.

The divisions emerged at a meeting of the provincial party leaders over the weekend which was trying to make an assessment of the demonstrations by tens of thousands of ethnic Albanians between November 17 and 21.

The demonstrators were calling for the reinstatement of two local leaders, Ms Kaqusha Jashari and Mr Azem Vllasi, who had resigned from senior positions under apparent Serbian pressure. They also proclaimed their opposition to constitutional changes which would boost the power of Serbia proper over Kosovo.

At the weekend party meeting, ethnic Albanian politicians argued that the demonstrators should be taken at their word when they proclaimed their loyalty to Yugoslavia and said they were defending the constitution.

Local Serbian politicians maintained that the demonstrators' claim of loyalty to the federation was a guise for "hostile activities".

Kurdish guerrillas kill eight Turkish soldiers

By Jim Bodgener in Ankara

KURDISH separatist guerrillas early yesterday morning ambushed and killed eight Turkish soldiers near Sirnak in the south-eastern province of Siirt.

The guerrillas – thought to be from the Marxist Kurdish Workers Party (PKK) – then melted away into the night.

Yesterday evening a large pursuit operation mounted with helicopters was continuing.

The incident ends a slack period for PKK activity, and is the most serious this year. Two commandos were killed in roughly the same location in July.

Since then, the Turkish government has given asylum to around 40,000 Iraqi Kurdish refugees from the brutal campaign waged by the Iraqi army in northern Iraq against rebels of the Kurdish Democratic Party led by Mesud Barzani, which may have explained the lapse in PKK activity.

Another reason, according to observers, is that the PKK leadership headed, by Abdullah Ocalan, itself may be divided over whether or not to continue extreme terrorist tactics to coerce civilians in the countryside, or use more subtle propaganda techniques.

EUROPEAN NEWS

Bank of Greece chief at centre of Koskotas row

By Andriana Ierodiaconou in Athens

MR Dimitris Chalikias, the governor of the Bank of Greece, has found himself at the centre of the political storm involving former banker and press baron Mr George Koskotas, after testifying on the subject before a specially appointed parliamentary fact-finding committee.

Pervasive reports, pointedly not denied by the Governor, held that in his testimony Mr Chalikias accused by name members of Greece's Socialist Government with having attempted to deflect a Bank of Greece investigation into Mr Koskotas's financial affairs.

The governor is held to have chiefly made allegations concerning Mr Agamemnon Koutsogiorgas, the former justice minister and current Minister to the Prime Minister, and Mr Panayiotis Roumeliotis, the National Economy Minister.

In a joint statement Mr Koutsogiorgas and Mr Roumeliotis said the reports of Mr Chalikias's testimony were inaccurate, and hinted that they were fabricated by the opposition for political purposes. The ministers said they would respond to the allegations in the reports when they testified before the fact-finding committee.

Mr Chalikias is reported to have told the committee that Dr Andreas Papandreou, the Prime Minister, gave the Bank of Greece the green light to continue its research into Mr Koskotas's affairs.

The former tycoon was charged with embezzlement and foreign currency fraud last October. The charges were filed after the Bank of Greece produced evidence that Mr Koskotas had forged a statement showing a foreign currency account placed by the Bank of Crete, the private bank which he controlled, with a major international investment bank.

Mr Koskotas subsequently fled Greece and was arrested in the US last month.

George Koskotas: under investigation

Arafat holds talks with American Jews

By Robert Taylor in Stockholm

MR Yassir Arafat, chairman of the Palestine Liberation Organisation, held talks yesterday in Stockholm with five influential American Jews led by Mrs Rita Hauser, head of the US arm of the Tel Aviv-based International Centre for Peace in the Middle East.

This is the first time the PLO leader has met such a prominent delegation of American Jews.

Coming only three weeks after the Palestine National Council meeting in Algiers, which implicitly recognised Israel and declared an independent Palestinian state, the meeting was seen as a potentially helpful development in efforts to break the Middle East diplomatic deadlock.

Next week, Mr Arafat is due to address a hastily organised session of the United Nations General Assembly in Geneva.

The Israeli government reacted strongly to the news of the Stockholm meeting. A Foreign Ministry spokesman in Jerusalem said it was bound to injure future Swedish-Israeli relations and a protest note was presented to the Swedish ambassador.

Although the Swedish government was not directly involved in the discussions, Mr Ingvar Carlsson, the Prime Minister, cut short his trip to Paris where he was having talks with the French government and attending a meeting of the Socialist International in order to meet Mr Arafat and his delegation.

Yesterday's meeting owes a great deal to the quiet diplomacy of Mr Sten Andersson, the Swedish Foreign Minister.

But it was a secret meeting in Stockholm two months ago organised by Mr Andersson between Mr Khaled al-Hassan, a senior PLO figure, and three American Jews that led to yesterday's get-together with Mr Arafat.

The Swedish government has gone further than the countries of the European Community in its enthusiasm for the PLO's new political strategy, though so far it has stopped short of actually recognising the symbolic Palestinian state.

Nearly two weeks ago Mr Andersson expressed his solidarity with the Palestinians in a speech at a rally organised in their support in which he called on Israel to "accept the PLO's outstretched hand and commence the peace dialogue at long last".

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Growth in developing country aid falters

By Ian Davidson in Paris

THE RICH industrialised countries last year spent about $41.5bn in official development aid to developing countries, according to the latest annual report from the Development Assistance Committee of the Organisation for Economic Co-operation and Development.

In nominal terms, the 1987 total was significantly up on the 1986 figure of $36.7bn. After allowing for changes in exchange rates and prices, however, it represented a 1 per cent decline in real terms.

The committee's secretariat believes this represents a temporary interruption in a general trend of modest aid growth; nevertheless, there has been a substantial slowing-down in the rate of growth of aid by members, from an average of 4.5 per cent a year in 1976-81, to 2.8 per cent in 1982-87.

Among the larger DAC members, the Japanese performance in 1987 was "outstanding", says the report. Its spending on development aid increased by 13.5 per cent in real terms last year, and accounted for 18 per cent of total DAC aid, compared with only 2 per cent in 1962. As a proportion of gross national product Japanese aid went up from 0.29 per cent to 0.31 per cent.

This was less than the DAC average of 0.35 per cent last year. However, Japanese aid is expected to increase rather rapidly in the next few years, in line with commitments announced at last June's Toronto Summit, with the result that Japan is likely to be the largest aid donor in 1988 or 1989, overtaking the US, and to spend over $50bn in aggregate during the period 1988-92.

By contrast, the report expresses "disappointment" with the performance of the US, whose official aid spending went down from $9.6bn in 1986, or 0.23 per cent of GNP, to $8.9bn last year.

Mr Joseph Wheeler, the DAC chairman, makes allowance for the mitigating factors behind the decline in US aid flows, including the problems caused by the trade and budget deficits. Nevertheless, he predicts that "the growing disparity in the aid effort among the members will become an increasingly important issue, particularly after the US has broken the back of its short-term fiscal and trade imbalances. . . The time may be ripe for the US to look at its foreign relations budget in terms of long-term objectives."

In 1987 Britain's Overseas Development Administration disbursements fell by 7 per cent in real terms to the equivalent of $1,865m, representing a decline as a share of GNP from 0.31 per cent to 0.28 per cent.

The DAC has pointed out that the UK has publicly subscribed to the United Nations target, that development aid should reach 0.7 per cent of GNP. In practice, the British record has shown a steady decline from 0.4 per cent in 1981/82 to 0.28 in 1987.

Over the past five years, the British economy has grown by an average of 3.1 per cent a year in real terms; whereas British ODA disbursements have declined by 2.9 per cent a year, also in real terms.

Bonn tackles the pensions bulge

David Goodhart reports on a proposal to raise the retirement age

WEST Germany, famous for its shortening working week, may soon be blazing a trail in the opposite direction by becoming the first industrial country to *raise* the retirement age.

A proposal to push up the pension qualifying age to 65 for men and women – from the 60 years for women and 63 for men at present – appears in a discussion paper on pension reform just published by Mr Norbert Bluem, the Employment Minister, which will form the basis of legislation due to become law in early 1990.

West German policy-makers, like those in many other industrial countries, over the past few years have started to agonise over the fiscal consequences of sharply declining birth-rates, and thus fewer tax-paying workers, combined with a growing army of pensioners living ever longer.

Because the birth-rate has fallen more sharply in West Germany than in most comparable countries, some believe that the country will face particularly tough choices by the middle of the next century, when one person in three could be 65 or over.

Some of the projections certainly look frightening. There are now 12m West German pensioners supported by 22.4m workers. But the ratio of workers to pensioners is expected to slip from about 2:1 to less than 1:1 by 2030, when 14.4m workers will to have to support 15m pensioners.

Combine that with the unusually lengthy education of many young West Germans and the gradual shrinkage of the working lifetime and the claim that, without radical overhaul, pensions will either need to be halved or contributions doubled by 2030, looks almost reasonable.

However, that calculation takes no account of the positive effects on national finances of an ageing population. The Organisation for Economic Co-operation and Development believes social spending in West Germany will actually *fall* between 1980 and 2040 because the rising cost of pensions will be more than outweighed by savings on education, family benefits and health.

New sources of labour are also likely to be tapped: more women will join the workforce, and a continuing flow of Germans from the East bloc is expected. Finally, unemployment is expected to decline sharply which, according to BDA, the employers' organisation, will save the Government about Dm 170bn (£52.7bn) over the next 20 years.

The centre-right administration remains anxious about the future of pensions but there is sufficient awareness of the possible countervailing factors and the fallibility of projections for Mr Bluem to stress that his proposals are only a "provisional reform" designed to last about 20 years.

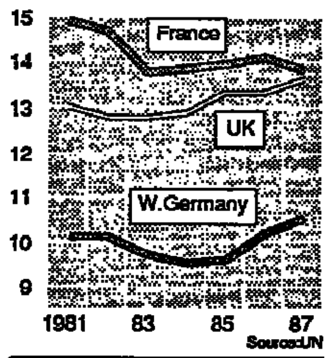
Like his reform of the health system, there is nothing "root and branch" about the latest pension proposals. It is rather a cost-trimming exercise designed to compensate for the generous 1970s when, instead of saving for the next century, the surplus went into higher benefits.

Mr Bluem believes that pension reform will receive a less stormy political passage than health reform and is going out of his way to stress that the burden is being spread across all the main interested parties – pensioners, workers, employers and the Government. It is still unclear whether the SPD will join a multi-party consensus.

The Greens and some parts of the SPD would prefer a more egalitarian system with a fixed pension but varying contributions dependent on income.

Birth rates

per 1000 inhabitants



Radical reform proposals have also come from within the Christian Democratic Union, the dominant party in the governing coalition. One suggestion is that pensions should be paid out of general taxation and be topped up with private pension schemes. Another idea is that pension contributions should be paid into funds responsible for investing the money and paying pensioners, as was the case before 1957, as opposed to the existing non-funded system in which pensioners are paid directly out of workers' contributions.

But the structure of the non-funded system is not in danger. Most of the Dm 170bn that is now spent each year on pensions will continue to be channelled through the one organisation for white-collar workers and 11 for blue collar workers which collect and distribute contributions.

The average contribution is 18.7 per cent of gross salary split evenly between employer and employee, which provides an average monthly pension of Dm 1,300, about 65 per cent of average net income. The pensions rise in line with gross income and are only lightly taxed.

Contributions have been creeping up from only 14 per cent of gross income in 1957 and will continue to rise. Under Mr Bluem's plans the contribution will rise to 21 per cent in 2010, but he insists that without other cost-cutting measures they would have had to rise to 24 per cent.

The other measures include: raising pensions only in line with net (not gross) income, due in 1992; raising the retirement age, due in 1995; and reducing the maximum number of years in higher education that can count towards a pension from 13 to seven.

The Government is also proposing to increase slightly its contribution, which has slipped from 32 per cent of total cost in 1957 to only 17.5 per cent today. However the slight rise to 20 per cent will be more than offset by the increased costs that the Government is simultaneously imposing.

These mainly concern incentives to child-rearing. Although the Federal Republic has remained squeamish about adopting a "population policy" after Nazi enthusiasm in this field, the Government now accepts the argument of economists that children should be regarded as an investment.

In other words the tax and pension system should try to compensate families for the extra cost of bringing up children. Mr Bluem, is not prepared to tackle the absurdity of working couples without children often enjoying higher incomes in retirement than they did when working. But he is proposing, that mothers should qualify for three years' pension, rather than the one year at present, for every child.

Portuguese civil servants in pay strike

By Diana Smith in Lisbon

SOME 350,000 Portuguese civil servants are to strike today, in protest at the government's refusal to grant them more than a 6 per cent pay rise in 1989.

Their unions – which cover a broad political spectrum – are demanding a 12 per cent rise, shorter hours and a radical review of promotions systems that can keep state employees in the same low-paid job for over 20 years, earning an average Es39,000 (£146) a month without hope of advancement.

Magistrates are on strike and demanding a pay review, causing havoc in Portugal's overworked courts. Electricity workers and Lisbon commuter ferryboat staff are also taking industrial action this week over pay and working conditions.

The wave of strikes emanates from the refusal by Mr Anibal Cavaco Silva's Social Democrat government – pressured by a sustained private spending boom, rising inflation and visible trade deficits – to permit real wage gains next year.

In the face of mounting evidence to the contrary, the government insists 1989 inflation will be only 6 per cent. The EC predicts at least 7.5 per cent inflation for Portugal.

The authorities want to dampen a spending boom that has put 500 new cars on the road each day, driven up consumer goods imports as a whole and generated a trade deficit now more than $3bn – the worst since 1982.

Wage-earners will be pinched next year by a tax reform that will introduce pay-as-you-earn to Portugal.

EUROPEAN NEWS

Portugal's pirate radio industry faces The Big Switch-Off

The dubious legal status of 600 stations will be resolved on Christmas Eve, reports Diana Smith

TUNE IN your radio to the FM band in Portugal and a cacophony of four official and more than 600 local stations will vie for your ears.

This may seem a lot for a country which harbours just 10m people in an area of 95,000 sq km. It works out to a rough average of one station per 16,666 people. In fact, scores of smaller operations which have sprung up with one watt antennas since 1981 have even fewer listeners.

Portugal has espoused local radio in its strictest sense. It has given parish, rural, small town and urban dwellers a chance to communicate on community issues and news. And thousands of young people – most local radio hands are under 30, and unpaid – a sense of involvement.

Local radio has also become an outlet for local grievances such as blocked drains, bad roads, perfunctory health services or rowdy neighbours.

But, despite obvious popularity, local radio is technically not legal.

Co-operatives run most of the 600 pirate stations. According to a survey of the stations last year by the weekly paper Expresso, the co-operatives were set up by a mix of young students, local churches, businesses, sports or recreation clubs.

The co-ops are legal and funded by Leagues of Friends who pay whatever modest contribution they can and sell cheap advertising to local businesses.

They broadcast with timetables ranging from a few hours once a week to 24 hours every day, crowding each other so that sometimes three or four overlap and none is fully-audible.

A 10-second advertising spot would cost just Es300 to Es500 ($19 to $32). In some cases, money comes from local government in return for reporting at length the doings of the municipality.

Some youngsters who man these stations get funds from the Programme for Occupation of the Young, a state-sponsored programme.

Accession to the European Community in 1986 brought European Social Fund money for local radio apprenticeships and job training.

But until the new radio law – which will assign 400 new frequencies – to liberalise the chaotically-crowded airwaves comes into force in January there will be only two legal radio stations in Portugal.

These are the state-owned RDP (Radiodifusao Portuguesa) with three channels – Antena 1, Antena 2 and Radio "Comercial" and the Roman Catholic Church's Radio Renascenca, which broadcasts on medium wave and two FM channels. It was briefly seized by extreme-left militants in the 1975 revolution, liberated by the authorities and formally restored to the Church.

Legal networks will occupy about 10 per cent of the 400 FM frequencies to be made available. Pirate stations may apply for a local frequency. Greater Lisbon, with the biggest audience, will have some 30 "free" frequencies and 61 pirates are competing for them.

Pirates such as TSF/Radio Jornal or Radiogest in Lisbon – popular news and music stations backed by big national newspapers or business groups – invested heavily in high-powered professional broadcasters and equipment.

They see themselves as top-level competitors against state-run RDP or Renascenca and set up with a tacit understanding they could get national, not merely local, frequencies.

They feel thwarted, however. The Portugese Government – in a move angry pirate stations claim aims to build a monopoly of nationwide frequencies by RDP and Renascenca – has decreed that for now, no national or regional frequencies will be assigned.

After howls of protest from big radio investors, the authorities hinted Radio Comercial might be privatised – this may take a year – and outsiders would be allowed to bid for it, thus obtaining nationwide facilities.

As if the nationwide restriction is not enough to annoy pirates, the Government has stipulated that to qualify for a local frequency all pirates must go off the air by December 24 and wait for adjudication of bids by the new Radio Consultative Commission.

This has thrown big, medium and small pirates into a spin. They protest that years of audience contact, of advertising and training, will be wasted.

They add that they will run up huge losses if forced into silence for what the Government says will be only six weeks but what pirates believe will be months.

The pirate stations claim that the Commission, which will meet for just a few hours once a week, will not be able to study and decide on 500 or more bids in that time.

At the core of the problem is Portugal's *brandos costumes* or soft ways. The last time anyone shut down a pirate station was 1962 in the old dictatorship.

Radio stations have been set up around the country since 1977, slowly at first but with increasing momentum.

Many stations, as audiences and revenue grew, invested in better transmitters, graduating from one watt to 10, 100, 250 or for the ambitious, 1,000 watts.

The authorities looked the other way so amiably that officials even willingly agreed to be interviewed on pirate stations.

But the time has come to bring order to cosily-illegal chaos. The axe will fall on the night before Christmas.

Local radios protest that in other EC countries scores of pirate stations were not forced off the air before legalisation. Portuguese officials, however, dislike being told how things are done elsewhere and want to do it their way.

Local radios argue that the time to punish them – if punishment is on the cards – is before, not after, they have expanded. Hitting them years after the tacitly-accepted fact makes them feel victimised.

The argument doesn't appear to have swayed officialdom and Portugal's pirate radio stations will find little cheer this Christmas.

TENDER NOTICE

UK GOVERNMENT ECU TREASURY BILLS

For tender on 13 December 1988

1. The Bank of England announces the issue by Her Majesty's Treasury of ECU 650 million nominal of UK Government ECU Treasury Bills, for tender on a bid-yield basis on Tuesday, 13 December 1988.

2. The Bills will be issued in the following maturities:

ECU 200 million for maturity on 12 January 1989
ECU 250 million for maturity on 16 March 1989
ECU 200 million for maturity on 15 June 1989
Bills will be dated 15 December 1988.

3. All tenders must be made on the printed application forms available on request from the Bank of England. Completed application forms must be lodged, by hand, at the Bank of England, Securities Office, Threadneedle Street, London EC2 not later than 10.30 a.m., London time, on Tuesday, 13 December 1988. Payment for Bills allotted will be due on Thursday, 15 December 1988.

4. Each tender at each yield for each maturity must be made on a separate application form for a minimum of ECU 500,000 nominal. Tenders above this minimum must be in multiples of ECU 100,000 nominal.

5. Tenders must be made on a yield basis (calculated on the basis of the actual number of days to maturity and a year of 360 days) rounded to two decimal places. Each application form must state the maturity date of the Bills for which application is made, the yield bid and the amount tendered for.

6. Notification will be despatched on the day of the tender to applicants whose tenders have been accepted in whole or in part. For applicants who have requested credit of Bills in global form to their account with Euro-clear or CEDEL, Bills will be credited in those systems against payment. For applicants who have requested definitive Bills, Bills will be available for collection at the Securities Office of the Bank of England after 1.30 p.m. on Thursday, 15 December 1988 provided cleared funds have been credited to the Bank of England's ECU Treasury Bills Account No. 59005516 with Lloyds Bank Plc, International Banking Division, PO Box 19, Hays Lane House, 1 Hays Lane, London SE1 2HA. Definitive Bills will be available in amounts of ECU 100,000, ECU 500,000, ECU 1,000,000, ECU 5,000,000 and ECU 10,000,000 nominal.

7. Her Majesty's Treasury reserve the right to reject any or part of any tender.

8. The arrangements for the tender are set out in more detail in the Information Memorandum on the UK Government ECU Treasury Bill Programme issued by the Bank of England on behalf of Her Majesty's Treasury on 14 September 1988. All tenders will be subject to the provisions of that Information Memorandum, copies of which may be obtained at the Bank of England. UK Government ECU Treasury Bills are issued under the Treasury Bills Act 1877, the National Loans Act 1968 and the Treasury Bills Regulations 1968 as amended.

Bank of England

6 December 1988

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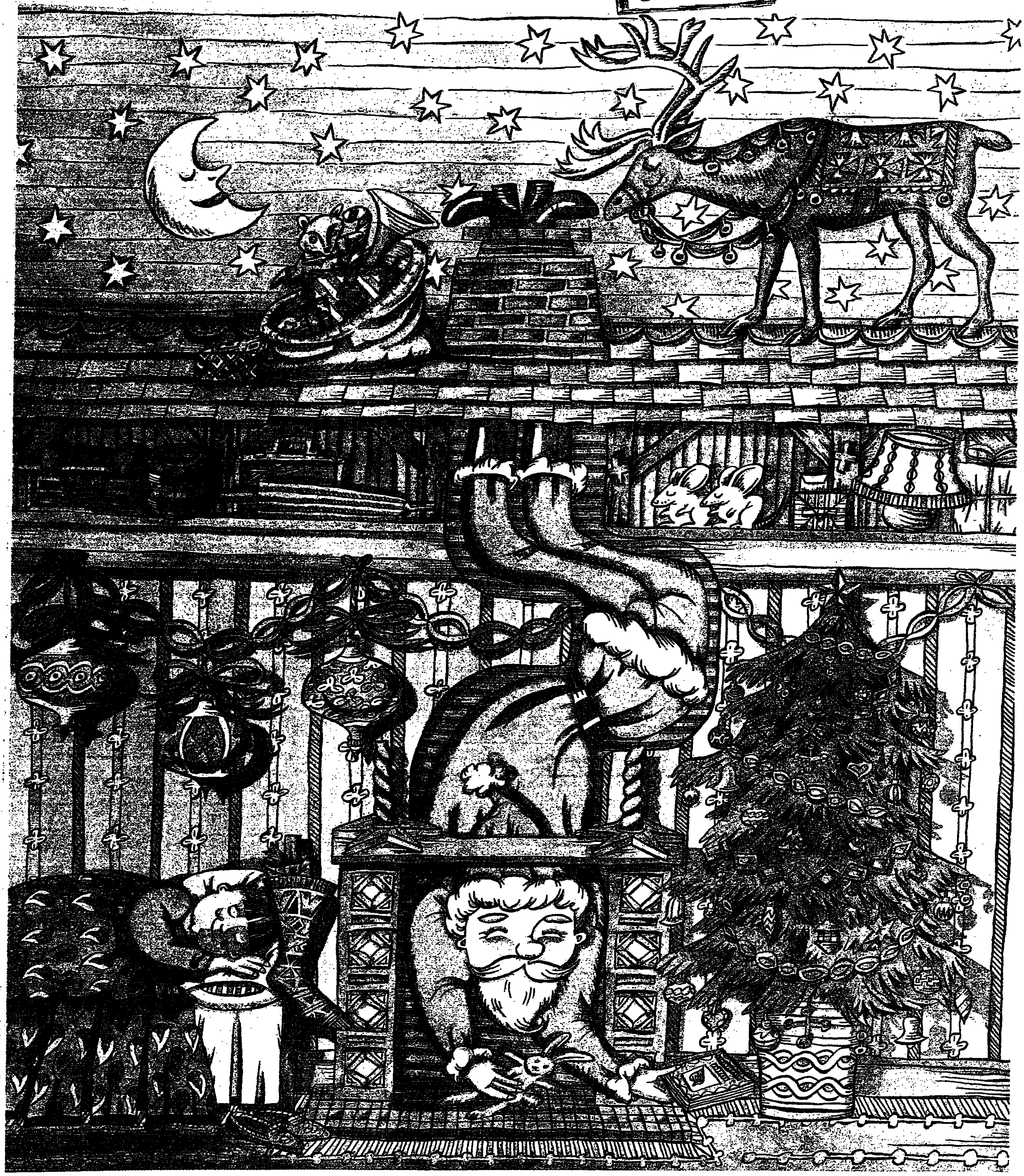

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Anyway, if you get stuck for cash, you can always use your card to draw money over the counter from your Access bank.

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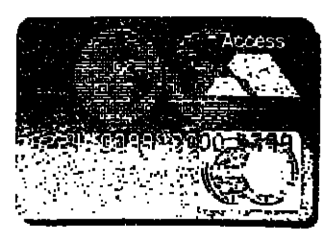

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WORLD TRADE NEWS

Swedes plan furniture venture in Poland

By Christopher Bobinski in Warsaw

IKEA, the Swedish furniture company, is planning to expand its activities in Poland under the auspices of IKEA Poland, a wholly-owned subsidiary registered in Warsaw earlier this year.

IKEA is the first major Western company to set up a subsidiary in Poland by taking advantage of rules permitting small-scale Western investment passed in 1982 as well as pre-war legislation.

By doing so, the Swedish company has moved ahead of a new Western investment law which is expected to come into force early next year sanctioning the establishment of 100 per cent Western-owned companies.

According to Mr Marian Grabinski, chairman of IKEA Poland, plans include the building of a warehouse and retail capacity of 15,000 sq metres just outside Warsaw, stocking the entire IKEA range for sale in Polish currency.

The project, which will cost around $25m (£13.8m), will include a motel and a restaurant and should be completed within three years. Meanwhile, IKEA plans to open a smaller shop in Warsaw.

This year, IKEA will have purchased SKr300m-worth of furniture from Poland and this figure is expected to double next year. IKEA is also planning to invest between $12m and $15m in machinery for a Polish wood-working factory at Czarnkow, with which IKEA Poland will form a new joint company, bringing in three regional forestry authorities.

IKEA also has a minority share in a joint venture with a Hungarian retail chain, while the Soviet Union has agreed to have an IKEA shop in Leningrad.

Irish aircraft lease

GPA Group, the aircraft leasing company based at Shannon in the Irish Republic, is leasing two aircraft to Latur, a new Mexican charter company, which starts operations in two weeks, Kieran Cooke reports from Dublin.

Honduras boosts region's economic hopes

David Pickles reports on plans to revive Central America's war-ravaged economy

HONDURAS has decided it wants to rejoin the Central American Common Market after breaking away in the wake of the 1969 war with El Salvador. The change of heart will be a welcome boost for the United Nations' plan to revive the region's war-ravaged economy.

The UN's $3bn Special Plan of Economic Co-operation for Central America was finalised in April, 1988, as a prop to the peace process set in motion by last year's agreement by the region's leaders. The UN, skirting the direct issues of the peace process, aims to promote a recovery of intra-regional trade and thus the moribund common market organisation itself.

Intra-regional trade was $1.1bn eight years ago, equivalent to 24 per cent of the total trade of the Central American states. It fell to a nadir of $421m in 1986; but last year recovered to $500m (12 per cent of total trade).

The main reason for this contraction has been balance of payments problems. The purchasing power of the region's exports fell almost 40 per cent between 1979 and 1983, as the traditional agricultural staples of coffee, banana, sugar, meat and cotton fell in value, while imports became more costly. Increased interest charges on foreign debt added to the pressure.

This hit the capacity to import supplies for the industries which supply the regional market and led to a severe intra-regional debt problem, as trade credits supplied through the regional clearing house went unpaid.

Nicaragua adopted a policy of "expansive adjustment" after the 1979 revolution, causing deficits with its neighbours of $220m in 1980, $150m in 1981, and $65m in 1982. Honduras and El Salvador have also been consistently in deficit throughout the 1980s, though at lower amounts. The corresponding surpluses have been run by Costa Rica and Guatemala.

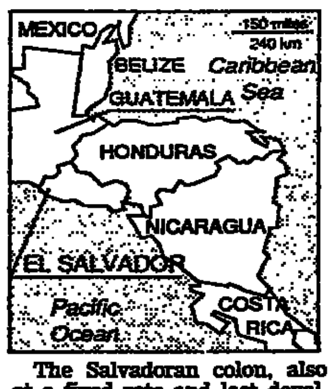
The result is an accumulated debt of $750m among Central American states and a virtual end to multilateral clearing within the CACM. Total clearing house transactions fell from $1.25bn in 1980 to just $29m in 1987 – the latter representing just 6 per cent of trade within the region.

The UN recovery plan includes $350m to restore liquidity to the clearing house and $250m for the Monetary Stabilisation Fund, to finance temporary balance-of-payments problems. Opinions differ as to whether this will be adequate.

The main creditor is Costa Rica. The biggest problem, according to Mr Eduardo Lizano, president of Costa Rica's central bank, is the $240m owed by Nicaragua. There are agreed timetables with both El Salvador and Guatemala to clear their backlogs – but with Nicaragua, one-for-one trading will be the norm for the time being.

Whatever is done about the old debt, sustained recovery of regional trade will depend on the prompt payment of new obligations. Nominal exchange rates and inflation have moved in wildly different ways in recent years. But a realignment of currencies, needed to avoid sustained deficits and surpluses, will be hard to achieve.

The Central American Monetary Council (an official body for central bank co-operation) estimates that the Honduran lempira, which is pegged at 50 cents, is still about 20 per cent overvalued in regional terms, even though it has been devalued by the back door through a foreign exchange certificate scheme which adds about 20 per cent to the value of exporters' dollars.



The Salvadoran colon, also at a fixed rate and last devalued in 1986, is now 60 per cent overvalued, thanks to inflation over the last two years. The Guatemalan quetzal, which has been restored to a unified floating exchange rate since July, is reckoned to be undervalued, relative to the Costa Rican colon. Costa Rica is Guatemala's main trading partner.

The Costa Rican colon is floating steadily downwards, presently standing at 78 to the dollar. The effective exchange rate of the Nicaraguan cordoba is impossible to assess, with inflation running at over 5,000 per cent this year.

Trade imbalances and the associated debts are by no means the only problem facing the CACM. If it is to survive, it will have to adapt to a world environment which has changed radically since the 1960s.

The strategic aim of the market was to boost industrialisation through import substitution, behind a common tariff. The result was rapid industrial growth in the 1960s and 1970s in metals, food products, textiles, chemicals, construction materials, leather goods and footwear – all for the region's own market. But these industries need raw materials and capital goods from outside the region, so the success of the system depended on the hard currency provided either by agricultural exports or foreign borrowing.

The shortage of imported materials is the most important factor behind the present industrial depression. Industry's share of regional gross domestic product fell from 19 per cent in 1979 to 16 per cent in 1986.

In the 1980s the five states have adopted diverse adjustment strategies which have tended to accentuate national particularities and undermine the basis for the common market.

Nicaragua has followed a line quite distinct from the rest of the CACM. Following the Sandinista revolution, it developed a network of piecemeal controls and subsidies to regulate domestic production and used foreign credits (largely from Comecon) and debt default to avoid balance of payments adjustment.

Domestic demand was kept high by a war-related fiscal deficit and monetary growth was used to finance it, leading to runaway inflation by 1987. Severe overvaluation, combined with the war, low prices and the US economic embargo since 1985 undermined export production, which fell from $640m in 1978 to $280m in 1987. Trade has been channelled towards the sources of aid in the socialist bloc and Europe.

Costa Rica is at the other extreme. The National Liberation Party (NLP) Government of President Monge, elected in 1982, began the restructuring of production towards new export markets. This has been continued and accelerated by the Arias administration since 1986. The programme has been backed by over $1bn from the US Agency for International Development since 1982, stimulated by currency depreciation and associated with a programme of privatisation and liberalisation.

El Salvador, wracked by civil war, has simply trodden water, floating on huge US economic assistance. Guatemala and Honduras have both tended to resist adjustment, with Honduras preferring exchange rationing by the Central Bank to depreciation and showing little enthusiasm for the World Bank's liberalisation programmes.

But during 1988, the imperative of external adjustment has started to force a new uniformity onto the region's patchwork of policies. Most importantly, Nicaragua has implemented a neo-monetarist reform which aims to increase the profitability of export production and to cut import and credit subsidies. Efforts are being made to establish a positive real interest rate. The reform has been battered by continued hyper-inflation which will be further accentuated following Hurricane Joan – Central America's worst natural disaster. But the turn in policy is decisive: perestroika has come to Nicaragua.

This is the first of two articles on the Central American Common Market.

Brazil exporters in battle to block new goods tax

By Ivo Dawnay in Rio de Janeiro

BRAZILIAN EXPORTERS were yesterday fighting a last-ditch battle to prevent or limit the introduction of a new tax on semi-processed goods which industry leaders warn could reduce the country's booming overseas sales "to a minimum".

The tax, an umbrella measure to allow state governments to raise revenues on products and services, came as part of Brazil's new Constitution, promulgated last October.

Part of the measure will give state authorities powers to charge a 13 per cent levy on semi-processed goods destined for export. Yesterday, state financial secretaries were hammering out a list of goods that would qualify for taxation with Mr Mailson da Nobrega, the Finance Minister.

In a last-minute nationwide lobby, Mr Mario Amato, president of the powerful Sao Paulo Industrialists' Federation (Fiesp), issued a warning that the impact of the measure "could be a calamity for the nation".

The damage to Brazil's competitiveness would be such that exports, now on target for a record year with sales of $32bn (£17.7bn), "could be reduced to a minimum", he said.

Several major export sectors claim that their ability to hold markets will be irrevocably weakened if the definition of what constitutes "semi-processed" is interpreted broadly.

The protest has put both the government and state authorities in a dilemma.

Federal officials are anxious to pass on tax-raising powers to the states in order to reduce their liabilities to finance local government expenditure.

The state governments claim that Brasilia is handing over unreasonable amounts of responsibilities without adequate funding to support them.

Provisional figures released yesterday put November's trade surplus at $1.6bn, leaving Brazil on target for a record year- end surplus of over $19bn.

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MONTREAL TRADE TALKS

US and EC at odds over trade in services

By William Dullforce and Peter Montagnon in Montreal

WIDE-RANGING differences between the European Community and the US have surfaced in trade ministers' discussions on liberalising trade in services in Montreal.

Though the differences are less emotive than those in the field of agriculture subsidies, delegates believe the rift could seriously hamper the chances of progress in this section of the Uruguay Round talks.

"The risk is that we'll end up getting nowhere," said Mr John Richardson, the EC's services negotiator. "If the approach is not agreed, we will continue to go round in circles for the next two years and endanger the whole Uruguay Round."

A new dimension to the differences is an attempt by the EC to insert a multilateral version of its own concept of reciprocity into any final agreement.

This has accentuated US fears of "fortress Europe" developing after 1992.

The EC argues that straightforward national treatment, which would put foreign service suppliers on the same regulatory footing as their domestic counterparts, is insufficient to ensure genuine liberalisation because it does not guarantee market access.

Mr Richardson used the example of Japanese financial markets, where interest rates are regulated and foreign banks cannot compete with Japanese institutions in attracting deposits by offering competitive interest rates.

Another key difference has been the EC's insistence, which is not replicated by the US, on ensuring that any agreement is compatible with the development aspirations of poorer countries.

The EC, which has been trying to strike an alliance in Montreal with countries such as Brazil, India, Egypt, Jamaica and Argentina, believes that without the involvement of developing countries, the most that Gatt could agree would be a code on services which few countries outside the industrial world would sign.

As hard bargaining began yesterday, Ms Anita Gradin, Swedish Trade Minister, was appointed to chair a special group on services. She will try to produce a more digestible version of the original document prepared by negotiators for this meeting which contained 130 points of disagreement for ministers to settle.

Mr Clayton Yeutter, US Trade Representative, has described this document as "the worst I've seen".

The US would also like the basic principles governing trade in services liberalisation to be regarded as obligations for Gatt members, but the EC feels this is too rigid.

Rocard hits at 'brutality' of the world economy

MR MICHEL Rocard, the French Prime Minister, yesterday denounced what he called the "brutality" of the rules of the world economy, and said he in turn would have to be brutal in the face of international competition, AP reports from Paris.

Particularly hard hit, he told the Council of the Socialist International, were the countries of the Third World, battered by the fall in the prices for raw materials.

"All of you know that it takes five or six times more sacks of wheat, peanuts or cocoa to buy a tractor than it did 25 years ago," Mr Rocard told 200 delegates from 30 countries. "The murder of the Third World is there."

Sweden's Prime Minister, Mr Ingvar Carlsson, denounced "serious imbalances in world trade that risk bringing about protectionist measures in certain countries. The world economy would lose in a war of this kind."

Gatt panel finds US unfair on patents

By Peter Montagnon

A DISPUTES PANEL set up by the General Agreement on Tariffs and Trade (Gatt) has found the US discriminates against foreign companies in applying its laws on patent infringement.

The panel was established at the behest of the European Community after the US charged Akzo of the Netherlands in 1986 with infringing a Du Pont patent for high strength aramid fibres.

The basic patents dispute has been settled privately between the two companies but the EC pursued its complaint in Gatt because of its concern that rules on alleged patent infringement in US trade legislation contravened international rules.

Leakage of the panel's report has come as an embarrassment to both the US and the EC at the Montreal trade ministers' meeting, because both have been trying to keep bilateral disputes off the agenda there.

The two sides have delayed further discussion of their dispute on hormones in meat until bilateral meetings in Brussels at the weekend. Formal discussion of the panel report on patents is not expected until a Gatt Council meeting in Geneva in February.

However, the issue is regarded as of far-reaching importance because it affects intellectual property, one of the most contentious issues at Montreal.

It has also set a precedent which may call into question the application of US law on patents in other cases.

The basic conclusion reached by the panel was that foreign companies caught under section 337 of US unfair trade rules are denied the rights of court hearings which would be available to domestic companies in similar disputes.

The case was brought by the EC after the US acted against Akzo on the basis of its previous trade legislation, but Section 337 of the new trade bill passed this year marks a considerable tightening of the rules.

The US now faces a considerable challenge in deciding how to respond to the panel finding.

How Australia operates in Gatt

William Dullforce looks at Canberra's tough negotiating stance

MR MICHAEL Duffy, the Australian Minister for Trade Negotiations, called a press conference during the trade ministers' meeting in Montreal, to lambast the US and the European Community for their refusal to come to terms on the reform of world agricultural trade.

He was forthright without respect, in the true Aussie manner, and entertaining. In a perfect world, the US and the EC would deserve each other but unfortunately they were souring the lives of smaller farm-exporting nations, Mr Duffy quipped.

His conference was as heavily attended as the US and EC briefings but the journalists did not just turn up for knockabout entertainment. The fact is that Australia carries an authority and has wielded an influence in the multilateral trade talks in Geneva substantially greater than its stature as the world's 22nd biggest exporter would warrant.

In large measure, this influence derives from the activities of Mr Alan Oxley, the Australian ambassador to the General Agreement on Tariffs and Trade, whose unmistakable thick crop of curly light grey hair regularly appears at the centre of events in the Uruguay Round.

Impatient of diplomatic niceties or cosy old habits, Mr Oxley, 41, has both introduced to Gatt a new way of doing business and energetically exploited the kind of backing from his government that few other heads of mission enjoy, to knot relationships and extend Australia's influence.

Australia's Labour government decided at an early stage that the interests of its farmers, mining companies and industry called for a hard-nosed policy towards the trade-liberalising Uruguay Round.

Appointed personally by Mr John Dawkins, the Trade Minister, in 1985, Mr Oxley was told to ensure that the Round got under way and that Australia was well placed to exercise influence on key issues, above all on agriculture. His staff was expanded from four to six and a half.

Essentially a political operator, Mr Oxley stands out as a wheeler-dealer among the close-knit coterie of trade diplomats in Geneva, some of whom have known each other for decades.

"Trade rests on hard interests," says Mr Oxley. "Diplomats are highly articulate people describing in general terms objectives which become more colourful the more time they have on their hands."

Mr Oxley conceived the idea that the smaller farm-exporting countries should try to work together in a group in the farm talks. His direct line to Mr Dawkins meant that the idea was picked up, and Mr Oxley gives credit to ministerial determination for the surprising cohesion of the widely disparate 13-nation Cairns group that has become the very active third force to the US and the EC.

The 13 are Argentina, Australia, Brazil, Canada, Chile, Colombia, Hungary, Indonesia, Malaysia, New Zealand, Philippines, Thailand and Uruguay.

However, Mr Oxley's activities have not just been confined to agriculture. Australia has also produced a path-making paper on trade in services and safeguards. It has also masterminded the formation of ad hoc coalitions in several negotiating areas.

A favourite thesis of Mr Oxley's was illustrated in the formation of the Cairns group. This is that the emergence of developing countries with important trading interests opens up possibilities for new alliances across the old border between developed and developing countries. A new order is appearing in Gatt.

In Geneva Mr Oxley has assiduously followed up the idea first tentatively mooted by Prime Minister Bob Hawke of Australia that countries from the Association of South-East Asian Nations (Asean) and from the Pacific might meet to talk about common interests.

Ambassadors from five developing countries discussed a "non-ideological view of trade" with the Australians, Japanese and New Zealanders in a lunch group started by Mr Oxley. Their ideas are now feeding into the negotiations in the Uruguay Round.

Respect for his effectiveness induced the members to elect him chairman of the Gatt council in 1987. This recognition by his peers has not stopped him from being critical of the way in which work is done in the Gatt negotiations.

Nor is he a universally admired figure in Geneva.

Industrial nations harming poor, says World Bank chief

By Peter Montagnon

TRADE policies in the industrial countries have come under fierce criticism from the heads of the International Monetary Fund and World Bank in Montreal because of their effect on developing countries.

Mr Barber Conable, World Bank President, told trade ministers that protection by industrial countries cost developing nations almost twice what they receive in aid.

Mr Michel Camdessus, International Monetary Fund Managing Director, said IMF figures showed that industrial countries had increased their recourse to trade protection last year, while developing countries had on balance done the opposite.

The presence of the two men at the ministerial meeting in Montreal underlines their support for greater co-operation between their institutions and the General Agreement on Tariffs and Trade as one possible outcome of the Uruguay Round of trade liberalisation talks.

In his speech to the plenary session, Mr Camdessus pledged that the IMF would give financial support to countries implementing trade reforms and encountering temporary balance of payments problems as a result.

But the idea of greater Gatt collaboration with the IMF and the bank is viewed with reserve by some industrial country trade ministers who see it as an attempt to introduce more conditionality to their economic policies.

Mr Camdessus sought to allay these fears by suggesting that the regular trade policy reviews that Gatt is now considering for its member-countries would impose strong pressures on developed countries to eschew protectionism.

In his speech, Mr Conable presented a long litany of actions taken by developed countries against developing ones.

He said an EC dumping enquiry had found that Trinidadian urea exports to the EC were causing "material injury", when Trinidad controlled only 0.3 per cent of the world market. Meanwhile, he said, the EC was "dumping \$2bn-worth of sugar and beef on world markets".

The US had last year imposed dumping duties on \$16m-worth of cut flower exports from Mexico, Costa Rica, Ecuador and Chile. These were countries which were liberalising their own trade and struggling to pay interest to US banks on their foreign debt.

Mr Camdessus said the IMF executive board was pledged to help the Gatt become more effective, but he added that practical suggestions as to how this should be done would have to come from Mr Arthur Dunkel, Gatt Director-General, rather than from the IMF itself.

Volkswagen chief speaks up for free trade

VOLKSWAGEN is "absolutely in favour of" removing trade restrictions with the creation of a unified European market in 1992, but a "transitional period" may be needed for some countries, to avoid confusion, the group's chairman, Mr Carl Hahn, said in Tokyo yesterday, AP reports from Tokyo.

"We realise for some of our neighbouring countries, a transitional period might be necessary before granting (foreigners) completely free access to our market," he declared.

"But I'd like to emphasise we mean that (the grace period would be given) only in very few cases, only as true exceptions, and only for a short time, to avoid too abrupt structural changes in the market place."

Mr Hahn's comment comes amid Japanese fears that 1992 could encourage a protectionist reaction by the European Community. They fear the planned termination of trade barriers among the 12 EC nations could be replaced by new restrictions against non-Europeans.

In West Germany, where Japanese motor vehicle manufacturers face virtually no market barriers, such unilateral EC restrictions would mean a major blow to their market position, analysts said.

Stressing Volkswagen's position as a "strong supporter of free trade", Mr Hahn said "international free trade must be a two-way street". The remark is apparently aimed as a warning to Japan that foreign makers' share of the Japanese car market should be increased sufficiently to match the EC's efforts.

Echoing an industry consensus, he predicted foreign carmakers as a whole should gain a 10 per cent share of Japan's car market, compared with the present 4 per cent, in the medium term.

On other topics, Mr Hahn indicated the recently established tie between Volkswagen and Toyota Motor in truck production could inspire other projects.

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AMERICAN NEWS

Soviet team hints at surprise initiatives

By Lionel Barber in Washington

MR Mikhail Gorbachev, the Soviet leader, is set to meet President Reagan and President-elect Bush in New York today in an atmosphere of high suspense created by Moscow.

Much to the discomfort of the US, Soviet officials have successfully raised expectations of a "Christmas surprise" during Mr Gorbachev's three-day visit which includes a debut speech to the United Nations General Assembly this morning.

In advance news conferences and television appearances in Washington, Soviet officials have indicated that Mr Gorbachev may offer new Soviet initiatives on trade, arms control and a summit next year with President-elect Bush, leaving the Americans on tenterhooks as to Mr Gorbachev's real intentions.

Mr Vernon Walters, US ambassador to the UN, said on Monday that the US would examine any initiative carefully. "But I don't know whether he's going to bring any surprises, or whether this is a get-acquainted meeting or exactly what the nature of it is."

The White House, clearly nervous about Moscow's early propaganda advantage battle, said yesterday that Mr Reagan would hold a news conference tomorrow, his first for six months and the last before he leaves office next January.

Mr Gorbachev is to meet Mr Reagan and Mr Bush on Governors Island in New York harbour this afternoon after his UN speech, which is expected to be his major public statement during his visit to New York.

It will be the fifth and final meeting between Mr Reagan and Mr Gorbachev. Both sides view it as a chance to pave the way for further progress in US-Soviet relations during the Bush administration.

The timing of Mr Gorbachev's trip – which will be followed by a visit to Cuba and the UK – has caught the Reagan administration flat-footed. US officials acknowledge they cannot respond immediately to any Soviet initiatives because the White House is in transition. They have stressed that they will make no new proposals.

US officials, however, are braced for a possible Soviet initiative to reduce conventional arms in Europe, and for pressure for some easing of US restrictions on trade between the two countries. US laws currently limit export credits and loan guarantees to the Soviet Union.

Mr Bush has made clear that he is attending today's session as Vice-President and not as President-elect. But Bush aides have hinted that the President-elect may raise the issue of conventional arms, chemical arms and the spread of ballistic missiles.

Attention has also focused on the meeting between Mr George Shultz, US Secretary of State, and Mr Eduard Shevardnadze, his Soviet counterpart. The talks are expected to cover issues including the Soviet troop withdrawal from Afghanistan and conflicts in Cambodia and in Central America.

Fears over Brazilian inflation

BRAZIL'S financial markets fear inflation is certain to exceed its 25 per cent target this month, prompting concern for the social pact between the Government, employers and unions, Ivo Dawnay reports from Rio de Janeiro.

The futures market yesterday projected a month-end figure of just over 28 per cent for the Obrigacao do Tesouro Nacional (OTN), a key indicator used as a currency measure.

Under agreements negotiated last month, prices for a basket of essential goods and services should be held down to 25 per cent this month while pay will rise 26 per cent.

Debt negotiator to step down

Mr Hernan Somerville, Chile's chief negotiator for foreign debt, said he would resign at the end of the year, claiming that his mission was accomplished, AP-DJ reports from Santiago.

He said that during his five-year tenure Chile not only completed renegotiating its entire debt but "reduced it substantially". He said payments of principal of the $17.9bn debt would resume in 1991 and end by 2002.

Alfonsín denies concessions made to end army revolt

By Gary Mead in Buenos Aires

PRESIDENT Raúl Alfonsín of Argentina denied yesterday that concessions were made to end the four-day rebellion of an estimated 500 Argentine officers and men led by Col Mohamed Ali Seineldín.

But unofficial sources from within the army suggested that the rebels laid down their arms after an agreement between Col Seineldín and Gen Isidro Caceres, who had acted as intermediary between rebels and the Government. It is believed the understanding was achieved without the backing of either President Alfonsín or Gen José Dante Caridi, the army chief of staff.

Col Seineldin was transferred yesterday morning to an unspecified military garrison in Buenos Aires, in the charge of retired Col Jorge Covacivich, a military judge. The rebel leader left his headquarters, the Villa Martelli arsenal in a suburb of the capital, accompanied by Gen Caceres, Since Saturday Villa Martelli had become the operational centre of a passive insurrection by a number of key army units throughout the country.

The terms of the agreement are thought to be the resignation of Gen Caridi before the end of the year; greater military spending, including pay increases; and an eventual amnesty for officers imprisoned for human rights' violations committed under the military dictatorship of 1976-1982.

A hint at the possible future of Gen Caridi came from Mr Gil Lavedra, Secretary of the Interior Ministry. He said in a radio interview that President Alfonsín fully supported Gen Caridi but added that his position "depends on if he wants to retire".

While late on Monday rebel troops began to remove the camouflage paint from their faces, and the few remaining rebels outside Buenos Aires caught up with the news of Col Seineldin's removal, few observers believed that he had laid down his arms without extracting some promises, even if only from Gen Caceres.

President Alfonsín's denial of concessions was accompanied by a promise that the judicial authorities would take over the case. Describing the rebels as "messianic groups", he added that he recognised army grievances over salaries and military spending but that all Argentine society was living through similar difficulties.

Supreme Court to consider punitive damages limit

By Roderick Oram in New York

THE US Supreme Court has agreed to consider if punitive damage awards by juries could be limited in size under the constitution. Rapidly escalating and, in the view of some, excessive awards are placing a growing burden on corporations.

Juries across the country have become more used to the idea that large punitive damages are necessary in some cases to punish corporations for their actions and to deter further occurrences.

The National Association of Manufacturers said in a brief to the Supreme Court urging a hearing, that "hardly a month goes by without a multi-million dollar punitive damages verdict against a manufacturer". These awards, up from damages of less than $250,000 a few years ago, are having a "devastating" effect on industry.

The Court will decide how broadly applicable is the Constitution's Eighth Amendment prohibiting cruel and unusual punishment and "excessive fines". Legal experts said the ruling could have implications in related areas of damages.

The Supreme Court has agreed to hear an appeal of a Vermont court's levy of $6m in punitive damages against Browning-Ferris Industries, a nationwide waste disposal contractor based in Houston. The jury found it had caused $51,146 of economic damage to Kelco Disposal, a small local company it had tried to drive out of business through predatory pricing.

US car sales up 7% last month

By James Buchan in New York

SALES of cars and light trucks in the US picked up sharply in the second half of November but analysts are divided over the underlying strength of demand.

Sales of US-made cars and trucks rose 3.6 per cent in the last 10 days of the month, for an adjusted annual rate of 7.6m vehicles. This made up for a slow beginning to give an overall increase for November of 7.6 per cent.

Much of the gain came from General Motors, which sold 17 per cent more vehicles in the last 10 days. This helped it to regain some of its lost market share, with an average for the month of 35.3 per cent against 32.8 per cent a year ago.

Ford and Chrysler lost share and imports fell, though lower imports were partly offset by higher sales from Japanese-owned US "transplants".

Analysts cannot agree whether the higher sales are satisfying real demand or going into dealers' stock. This would force the industry into another round of production cuts and price promotions.

Ford, which saw its late November sales fall 15.7 per cent, has extended rebates on many of its 1989 models.

● Mr Robert C. Stempel, General Motors president, said GM estimated that an additional 15 cents-a-gallon tax on petrol would lower US vehicle output by 500,000 units annually, jeopardising up to 120,000 jobs, AP-DJ reports from Boston.

Higher federal petrol excise taxes is one means by which the US budget deficit could be cut.

Garcia under siege as chaos creeps into ruling party

By Veronica Baruffati in Lima

AFTER four postponements, Peru's ruling American Popular Revolutionary Alliance has scheduled its sixth party congress for December 16.

The difficulties of convening the congress underline the extent of infighting within Apra about the continued leadership of President Alan Garcia and demonstrate that political activity is being seriously affected by the chaos now enveloping Peru.

President Garcia may be under siege from critics inside his party, dismayed by the performance of the first Apra leader elected to power. But his immediate problems lie less within his own party ranks and more on the palace doorstep.

One of Lima's leading dailies has just published excerpts of a letter which Mr Garcia wrote to President Fernando Belaunde Terry on January 1, 1984, in his capacity as secretary general of Apra. In it he asked: "How long will you allow production to fall, fact ories to close, inflation to increase, and the inequalities between Peruvians to accentuate through death and disease?"

This letter could well be addressed to Mr Garcia today, signed by many Peruvian citizens. Inflation for 1989 is conservatively projected at 2,000 per cent; the harsh recession now sweeping Peru is expected to cause a 40 per cent fall in industrial production this year. In the countryside some 36,000 hectares, half the land cultivated by peasants, will not be sown due to lack of credit.

Widespread strikes continue to plague the productive sector, where the miners' strikes alone have cost Peru almost $400m in lost export revenue this year. Net international reserves in September were a negative $341m and the foreign debt has risen to $15.6bn, more than a quarter of which represents arrears.

Against this rapidly deteriorating economic backdrop, the activities of the maoist guerrilla group, Sendero Luminoso (Shining Path) have increased. Their attacks on industrial installations, government buildings and personnel have added to the nation's unease.

Attacks on power lines are wreaking havoc on the capital's essential services. As a result of power shortages, 30 per cent of Lima's water supply cannot be pumped from deep wells. Increased terrorism by Sendero has forced the security forces in turn more onto the offensive, with results that have not always reflected credit on the Government.

In the streets, strikes and violent demonstrations continue. Miners and police clashed last week in the San Marcos University campus, where miners from the provinces are camping. On Thursday, the General Confederation of Peruvian Workers staged a general strike in demand of better living conditions, higher wages, and a solution to the miners', bankers' and textile workers' strikes.

President Garcia gives little indication of mending his ways. The resignation nine days ago of Mr Abel Salinas, the Finance Minister, has been interpreted here as a reaffirmation of President Garcia's stubborn refusal to accept advice he does not like.

Three finance ministers have resigned this year, each after presenting more radical economic proposals than Mr Garcia has been prepared to tolerate. Mr Salinas in particular seemed ready to introduce the kind of measures which would have helped patch up Peru's acrimonious relations with the international financial community.

Demand is building for the formation of a cabinet of national unity made up of independent technicians who would try to pull Peru out of the quagmire of recession, violence and labour unrest. President Garcia has said he would not rule out such a possibility "in demonstration of the Government's capacity to reconcile," but that he would first have to consult his party at Congress.

This Congress will be the first to be held while Apra is in government. If finally held, it promises to be a power struggle between the President and Mr Luis Alva Castro, Mr Garcia's first premier.

The nomination last week of Mr Carlos Rivas Davila as Finance Minister is seen to be a feather in Mr Alva Castro's cap. He himself refused a portfolio, preferring to secure the potentially powerful post of Apra secretary general, from which position of strength he is said to expect the two portfolios of Finance Minister and Prime Minister which he held previously.

The military have not concealed their restiveness over events. Nevertheless, the rumours of an impending coup, so prevalent last month, have subsided for the moment. The military appear divided on what can be done, with a majority reluctant to step in and manage such a volatile situation. Even so, rumours in Lima suggest that in January or February an organised group within the military might stage a coup.

For this reason, some politicians are pressing for constitutional changes to reduce the presidential term of office from five to four years. Elections could thus be brought forward to forestall any plotting by the military. President Garcia, however, poured cold water on this idea at the weekend.

TWO French volunteers and three Peruvians were murdered by Sendero Luminoso guerrillas on Sunday, writes Veronica Baruffati.

Armed terrorists attacked the Centre for Agricultural Co-operation and Development in Aquira, in the Andes, and conducted a "popular trial" before killing their victims. In April, a US citizen working on an agricultural project financed by the Agency for International Development was murdered

Japanese GNP growth rate surges to 9.3%

By **Ian Rodger** in Tokyo

JAPAN'S GROSS national product surged ahead at an annual rate of 9.3 per cent in the July-September quarter, as consumer spending, investment by industry in new plant and equipment and exports all rose strongly.

The GNP growth rate was somewhat higher than recent predictions, which had become more modest following the slight drop in GNP in the second quarter. The resurgence of growth buttressed many economists' forecasts that Japan will show the strongest growth among industrialised countries for at least another year.

However, the resurgence of exports is a worrying trend at a time when the country is trying to reduce its current account surpluses. The current account surplus rose to 2.6 per cent of GNP in the third quarter from 2.3 per cent in the second quarter.

Seasonally adjusted real GNP in the third quarter reached Y332,284.6bn (£1,463.8bn), up 2.2 per cent from the second quarter and 5.6 per cent higher than in the third quarter of 1987, according to the Government's Economic Planning Agency. Of the 2.2 per cent quarter to quarter gain, 1.8 percentage points came from domestic demand and 0.4 from overseas demand.

Private plant and equipment investment rose 4.4 per cent to Y71,116.1bn – the third quarter in a row of growth in excess of 4 per cent – while private consumption expenditure rose 1.4 per cent from the previous quarter to Y184,581.3bn. Housing investment, which is probably on a declining trend, was up 6.1 per cent to Y20,874.5bn following an 8.6 per cent drop in the second quarter. Public sector investment is also on a weakening trend, off 1.8 per cent to Y24,735.9bn after a 2.4 per cent decline in the second quarter.

Exports rose 9 per cent to Y60,372.4bn after a 3.8 per cent drop in the second quarter. Imports rose 6.3 per cent to Y60,145bn after a 5.1 per cent rise in the second quarter.

Mr Eric Rasmussen of brokers Jardine Fleming in Tokyo said that unless the trade surplus eased, Japan would come under pressure again to stimulate domestic demand. However, the economy was now performing so strongly that it was difficult to see where the stimulus could go.

Economists noted that even if the next two quarters are flat, Japan would record a 4.1 per cent rise in GNP in its fiscal year to March 31, 1989, and some now forecast that it could end up as high as 5 per cent, well above the government's forecast of 3.8 per cent.

Minister urged to resign

By **Stefan Wagstyl** in Tokyo

MR KIICHI MIYAZAWA, the Japanese Finance Minister, yesterday faced renewed calls for his resignation over his role in the Recruit financial scandal.

Opposition parties united to demand his resignation as a minister and as a member of the Diet (parliament) after a leading witness contradicted evidence previously given by Mr Miyazawa.

Mr Hiromasa Ezoe, the businessman at the centre of the affair, told a Diet committee yesterday the purchase of shares in Recruit Cosmos, an affiliate of Mr Ezoe's master company Recruit, had possibly been funded with a loan from First Finance, another Recruit group company.

Mr Miyazawa had previously told the Diet that shares bought in his name by Mr Tsuneo Hattori, his former secretary, had been bought with with Mr Hattori's own money. After hearing Mr Ezoe's testimony Mr Miyazawa said he stood by the evidence he had previously given.

The scandal concerns the sale of shares in Recruit Cosmos before it went public in 1986 to prominent people who subsequently made big profits from the flotation. The financing issue is sensitive because, in the eyes of opposition politicians, loans dispensed by one Recruit company for the purchase of stocks in another smack even more of bribery than simple share transfers.

UN vote causes discomfort

By **Ian Rodger**

THE JAPANESE Government reacted calmly to its first condemnation from the United Nations, but the Japanese, who have preferred in the past to avoid the limelight in world councils, were clearly uncomfortable with their first experience of the unpopularity that often comes with being on top.

The Foreign Ministry said officially that it was "regrettable" that the UN General Assembly had singled out Japan in a resolution adopted on Monday calling for a trade embargo against South Africa.

The UN vote was front page news in all the leading Japanese newspapers yesterday morning, and the reports included indignant comments from Japanese officials to the effect that the UN had not appreciated the significant efforts Japan had taken to apply economic pressure on South Africa.

The Foreign Ministry said that Japan's trade with South Africa had risen mainly because of the rise in the value of the yen against the dollar. Since early this year, when the trend had come to light, the Government had been urging industry to restrain its trade with South Africa and this was now bearing fruit. Japan's two-way trade with South Africa fell 11.1 per cent in the first 10 months to Y437.4bn (£1.9bn) and it has been falling in dollar terms as well since May.

Pretoria hopeful on Angola

MR PIK BOTHA, the South African Foreign Minister, said yesterday he believed Pretoria could come up with ideas to overcome obstacles holding up talks on Angola and Namibia, Reuter writes from Pretoria.

"I think we can return (to the talks) with suggestions that would solve the problem," he told reporters. He did not say what the suggestions were.

US-mediated talks between Angola, Cuba and South Africa were suspended at the weekend in Brazzaville, after the South African delegation abruptly returned home for consultations.

Signing of a protocol covering the 27-month pull-out of Cuban troops from Angola and independence from South Africa of Namibia is being held up by a dispute over how to verify the withdrawal.

Mr Botha would not comment on a statement on Monday by President Fidel Castro of Cuba that Cuban troops should be ready to stay 20 or more years in Angola rather than accept demands by South African on troop withdrawal.

Afghan peace efforts bring Saudi-Soviet accord nearer

By **Andrew Gowers**, Middle East Editor

EFFORTS to resolve Afghanistan's civil war have taken Saudi Arabia and the Soviet Union a small but significant step closer to resuming the normal diplomatic relations that were broken off 50 years ago.

On Monday night in Riyadh, King Fahd bin Abdul Aziz – together with Crown Prince Abdullah and a number of senior ministers and officials – received Mr Yuli Vorontsov, the Soviet Deputy Foreign Minister, for talks concerning the Afghan conflict. It was the highest-level public contact between the two countries since Josef Stalin unilaterally suspended Soviet relations with the Kingdom in 1938.

Experienced observers of Saudi affairs, however, cautioned yesterday against expectations of an early resumption of full ties. They said that while the Saudi Government is keen to co-operate with Moscow over Afghanistan, it is not clear that the royal family had yet obtained the vital consent of Saudi religious leaders for a formal exchange of ambassadors. It remains possible that by boosting its contacts with the Soviet Union, the Kingdom is trying to indicate its discontent with US handling of Arab countries, and in particular of the Palestinian issue.

The saga of Saudi-Soviet relations is a curious one. In 1927, the Soviet Union was the first country to recognise what was then King Ibn Saud's Kingdom of the Hijaz, and ties were upgraded to legation level a few years later. There has been no public explanation for Stalin's decision to suspend relations.

For the last 50 years, Saudi Arabia has been perceived as unequivocally in the Western camp. In the 1970s, the Kingdom's stance was reinforced by the anti-communism of Kings Faisal and Khaled, and since 1979 any thought of normalising relations has been banished by the Soviet military presence in Afghanistan.

Saudi Arabia has been among the principal supporters of the Moslem Mujahideen rebels fighting the Soviet-backed Kabul regime, channelling funds and arms through Pakistan.

It is the Soviet withdrawal from Afghanistan that seems to have spurred public contacts between Moscow and Riyadh. Both the Soviet Union and Saudi Arabia apparently now see their involvement in the country as a financial drain.

By hosting negotiations between Mr Vorontsov and the Mujahideen in the western hill city of Taif at the weekend, the Saudis were signalling their desire to co-operate in a resolution of the conflict, just as they have maintained private contacts with Moscow for several years on oil issues and Palestinian affairs.

The rapprochement with Moscow coincides with a higher and less timid Saudi profile in foreign policy as a whole. It has diversified weapons purchases, for which it long depended on the US, by buying arms in Europe and in China. Last month, it exchanged trade offices with China.

UK offers $100m to back IMF's Nigeria plan

By **Michael Holman** and **Stephen Fidler**

BRITAIN announced yesterday a $100m grant to Nigeria to support an economic recovery programme which has been endorsed by the International Monetary Fund.

The grant was disclosed by Mr Nigel Lawson, the Chancellor of the Exchequer, at a conference in London on developing country debt. It depends on the ratification by the IMF board of the agreement with Nigeria which was reached in principle last week, and on adequate contributions from other bilateral donors.

More than two-thirds of the grant, to be paid out in 1989, will come from the UK reserve and the rest from the existing aid programme. Officials said a further $200m of help was expected for Nigeria from other bilateral sources.

Mr Lawson told the conference that it was "imperative that Nigeria, like other countries trying to conquer their debt problems, should persevere with domestic policy reform. Without that no amount of overseas assistance will be effective."

The endorsement clears the way for a resumption of World Bank support for Nigeria's structural adjustment programme, bilateral assistance and further rescheduling of the country's $27bn external debt.

Last week Mr Ismaeli Usman, deputy governor of Nigeria's Central Bank, said that the Fund's approval should allow the country to draw the first tranche of a $500m World Bank facility by the end of the year. "A $200m Japanese loan should follow," he added.

An earlier agreement with the Fund expired at the beginning of this year. One of the main issues in the negotiations that have been under way for the past year was the Fund's insistence on a substantial cut in the Nigerian Government's subsidy of domestic fuel prices.

A modest increase introduced in mid year by the military government of President Ibrahim Babangida sparked off violent protests, and the Fund is thought to have modified its conditions.

Mr Abubakar Alhaji, the senior Nigerian negotiator, yesterday stressed that the Government did not intend to draw on the $650m IMF loan to which it is now entitled. "Nigeria has neither applied for, signed an agreement for, nor taken the IMF loan," he said in a statement issued in Lagos yesterday.

When it first reached agreement with the Fund in 1986 the Government drew a distinction between winning the Fund's approval for its economic policies and drawing on the loan to which it was entitled. In the course of a countrywide debate it became clear that most Nigerians strongly opposed borrowing from the Fund, although they accepted that economic austerity measures were necessary.

Tibet party chief replaced as tension mounts

By **Colina MacDougall**

IN A move suggestive of a desire to ease tensions, China has replaced Wu Jinghua, Tibet's top party official, with a younger, possibly reformist leader with experience of other minority regions, it is reported from Peking. However, fresh pro-independence emotions have erupted in Lhasa, according to reliable western observers.

Wu, who came from one of China's other minorities, had earlier been recalled to Peking, probably because he was held responsible for earlier disorders.

Replacing him is Hu Jintao, former party leader of Guizhou province, according to a party spokeswoman in Peking. Hu, originally from east China, at 46 is one of the youngest Central Committee *members*. He was widely believed when appointed to Guizhou to be an associate of Hu Yaobang, the dismissed party general secretary. Hu Yaobang, who visited Tibet in 1980, had launched more flexible policies to help repair damage done in the Cultural Revolution.

Hu Jintao takes office at a time when pro-independence feeling runs high in Lhasa. During a festival for Lhasa's protector goddess last Saturday, monks and hundreds of pilgrims filled the main square outside the Jokhang, Tibet's holiest shrine, chanting the "prayer of truth" which entreated the "protectors of Tibet to drive the barbarians of the east from the land of the snows".

A security clampdown by police started on November 23, but they did not intervene in the festival itself. However, the city was reported tense, with armed police circling the Jokhang.

On November 30 about 40 prisoners were paraded through the streets in a convoy of motorcycles and trucks. Tibetans were reported to have said that more than 100 political prisoners, including at least 30 monks and nuns, had been transferred from Tibet

Bhutto sees need to mollify the bureaucracy

Christina Lamb interviews Pakistan's Premier as she comes up against entrenched power structures

BENAZIR BHUTTO'S honeymoon period as Pakistan's Prime Minister was over even before she was sworn into office.

At the ceremony, she learnt *that a Soviet aircraft had been* hijacked and without her knowledge given permission to land in Pakistan. As soon as she had taken the oath, Ms Bhutto reversed the decision.

It was the first indication that the bureaucracy which has run the country hand in hand with the military for most of its 41-year life still considers itself the most powerful force in the country with which no elected government will be allowed to interfere.

Ms Bhutto admits that she is in for a tough time. "We've come into office circumscribed constitutionally, politically, economically and structurally."

Struggle is nothing new to the Oxford graduate, who, in the 11 years since her father, former Prime Minister Zulfikar Ali Bhutto, was removed from office and later executed, has endured jail, torture and exile in her fight for democracy.

She is conscious that she is being allowed to govern only as long as she does not step out of line. "We will move cautiously so as not to ruffle feathers. People don't know the PPP and they don't know me, so our first step is to build confidence, moving in a way that is absorbed by the key elements within the elite structures. Without the co-operation of the bureaucracy, we will be in a no-win situation."

So far, the bureaucracy seems in no mood to co-operate. Vital overseas calls are cut off too frequently for coincidence, while calls Ms Bhutto puts in to top bureaucrats get hopelessly diverted.

Ms Bhutto, who has matured greatly since her return from exile in 1986, is determined not to lose her cool. She knows she has been given a chance to govern only because the army and bureaucracy are convinced that she cannot survive, but the Islamic world's first female Prime Minister has other ideas.

"We've learnt from the experience of my father's government, when some people felt we moved a little fast and from that of the last Prime Minister, Mohammed Khan Junejo, which tried to make symbolic changes, not substantive."

She denies that this is a sign of weakness. "We have a sense of determination and perseverance to keep us going through. We are a reality and the bureaucracy is a reality, so rather than have conflicts we should come to terms. The systems may be loaded against us, but we feel we can still make a contribution."

Compromise is the party's new message. Nowadays, Ms Bhutto speaks in honeyed tones of the armed forces, while to please vital aid donors her street socialism has been discarded for free market economic policy. *Those expecting* radical social change will be disappointed.

The Government is so broke that last month it had to borrow to pay wages. Miss Bhutto admits austerity measures are more appropriate than increasing development. "We have no money and the time calls for difficult steps by the Government. If we just have strict measures but no benefits, that will cause social unrest, but if there is a corresponding betterment in the economic situation we feel the unhappiness will be diffused."

Bhutto: tough time ahead

Miss Bhutto has taken the Finance Ministry into her own economically inexperienced hands and has already set up a special group to attract foreign investments.

Shortly before the election the caretaker government agreed a package with the IMF which will provide a much-needed $1bn over the next three years, but at the cost of strict conditions including price and exchange rate adjustments which will greatly restrict future trade and social policies. Some economists predict these will increase the already huge budget deficit, currently 8.5 per cent of gross national product.

The Government must decide whether to ratify the agreement by the end of the year, and Miss Bhutto believes it has no choice. "We have no money and therefore no other option but to *incorporate* it into our budget as a bitter pill – the last legacy of President Zia."

The other great weight on the Prime Minister's mind is the fact that her Pakistan People's Party controls only two of the four provincial governments. The greatest blow was the loss of Punjab, Pakistan's richest province, home to nearly two-thirds of the population, to her opponents, the Islamic Democratic Alliance. Never in Pakistan's history has Punjab been governed by a different political group to that of the central government.

Hopes of co-operation between Mr Nawaz Sharif, the Punjab Chief Minister and IDA leader, and Miss Bhutto seem dim after the PPP walk-out from the Punjab Assembly objecting to the show of hands used to elect Mr Sharif, and with both leaders publicly accusing each other of having rigged the general election. Miss Bhutto argues: "It's a historical fact that there was rigging in Punjab to prevent us getting our majority and this should be determined by an election tribunal and court."

She is confident that Mr Sharif will be ousted within two months and intends to stand no nonsense from him. "There is nothing much he can do against the centre and he could only lose by confrontation."

Miss Bhutto has to be careful how she treads. With no government experience, and hampered by a constitution specially tailored for the late President Zia to give the president an array of discretionary powers, Miss Bhutto must evolve a working relationship with the president, the bureaucracy, the military and the Punjab Chief Minister as well as coming up with some goods for the voters if she wants to turn herself from a talented opposition leader and debater, to the successful head of a nation new to democracy.

Pakistan parties back Ishaq Khan as president

By **Christina Lamb** in Islamabad

MR GHULAM ISHAQ KHAN, Pakistan's acting President, looks set to be elected for the next five years in Monday's presidential elections, after both main parties announced their support for him.

Ms Benazir Bhutto, the new Prime Minister, is thought to have agreed to back Mr Ishaq Khan as part of a quid pro quo for his nominating her as premier.

Many party supporters are unhappy about this because he is also candidate of the opposition Islamic Democratic Alliance and they feel he did his utmost to block the PPP's entry into power. They say they will vote for Mr Nawabzada Nasrullah Khan, the hookah-smoking leader of the Pakistan Democratic Party.

Doubts were raised when the PPP nominated Gen Tikka Khan, the party's secretary general for the presidential election. Ms Bhutto hastily assured reporters that he was just a covering candidate and would be withdrawn before the election.

PPP sources say that Gen Tikka, known as the Butcher of Bengal for his unsavoury role in the 1970 war which led to the secession of Bangladesh, was nominated in an attempt to put pressure on Mr Ishaq Khan to accept him as governor of Punjab. The president selects governors on recommendation from the Prime Minister and Mr Ishaq Khan had refused to sign. Shortly after filing his nomination papers for president, however, Gen Tikka was announced as governor of Punjab.

Likud and Labour renew attempt to form coalition

By **Andrew Whitley** in Jerusalem

THE on-off courtship between Israel's two main parties, Labour and Likud, appears to be on again following meetings yesterday between President Chaim Herzog and leaders of the centre-left Labour Alignment.

Mr Shimon Peres, Labour's chief, agreed to renew a call to his own party to join a broad, national unity government at a meeting later this week of Labour's 1,300-strong central committee. Last Wednesday, the smaller executive bureau narrowly rejected an identical proposal.

Prospects of the proposal succeeding this time are regarded as considerably brighter following the president's intervention in the political debate on Monday, when he granted caretaker Prime Minister Yitzhak Shamir a further three weeks to form a government.

Before his election to the presidency in 1984, Mr Herzog was a senior Labour politician and his views carry weight in the party's ranks.

But the most significant word on the revived hopes of a broad government came from Mr Uzi Bar-Am, the party secretary-general, who has led the opposition to Labour's ministerial leadership on the subject. He has now come out in favour of such a move, provided the coalition is formed only by Labour and Likud and is committed to changing the electoral system.

Mr David Levy, the deputy Prime Minister, said the need for a broad coalition was gaining strength every day.

Israeli budget gap widens

By **Andrew Whitley**

GREATER military expenditure caused by the year-long Palestinian uprising in the occupied territories has contributed significantly to a widening budget deficit this year for the Israeli Government, according to treasury officials.

Stagnating tax and tariff income, resulting from the slowdown in the economy and a reduction in marginal levels of taxation, together with higher public sector wages, are also playing their part in a problem expected to worsen in 1989-90.

In the light of the growing deficit, the Treasury intends to ask the Cabinet shortly for a supplementary budget of up to Shl 700m (£240m). Parliamentary approval is almost certain, but the Treasury will be disappointed at having broken its own principles of budget discipline.

Initial drafts of next year's budget, starting in April, forecast a deficit of Shl 2.5bn, twice as large as initial projections for the current 1988-89 fiscal year.

Among the ideas officials are toying with to achieve savings are the selling of a large public hospital to private investors and charging fees on loss-making public services. User charges have long been a favourite of the free market-minded Treasury, but fierce political opposition to the concept has in the past forced the Government to back down.

Palestinians hurt

At least five Palestinian youths were reported wounded in clashes with Israeli troops yesterday as a general strike shut down much of the occupied West Bank and Gaza Strip, AP reports from Jerusalem. Victims included a 12-year-old and a 13-year-old, both shot in the head. Hospital officials reported 24 Palestinians beaten or hit with rubber bullets in the West Bank city of Nablus.

New Zealand scores debt 'success'

THE LATEST foreign debt data illustrate the "success" of the New Zealand Government's commitment to reduce its debt, Mr Roger Douglas, the Finance Minister, said yesterday, AP-DJ reports from Wellington.

New Zealand's total long-term foreign debt rose 0.4 per cent to NZ$30.23bn (£10.6bn) on September 30 from NZ$30.11bn on June 30, according to the figures released by the Department of Statistics.

Most of the increase was due to NZ$1.91bn of realised and unrealised losses due to a depreciation in the New Zealand dollar. But, despite the exchange rate impact, official long-term government debt, mainly that of the Treasury and Reserve Bank of New Zealand, fell 2.5 per cent to NZ$17.50bn on September 30 from NZ$17.95bn three months earlier. The fall occurred because repayment of several loans by the Government outweighed the effect of the depreciation, Mr Douglas said.

New Zealand farmers face despair as land turns dry

Dai Hayward reports on the devastating effects of the worst drought in the country's history

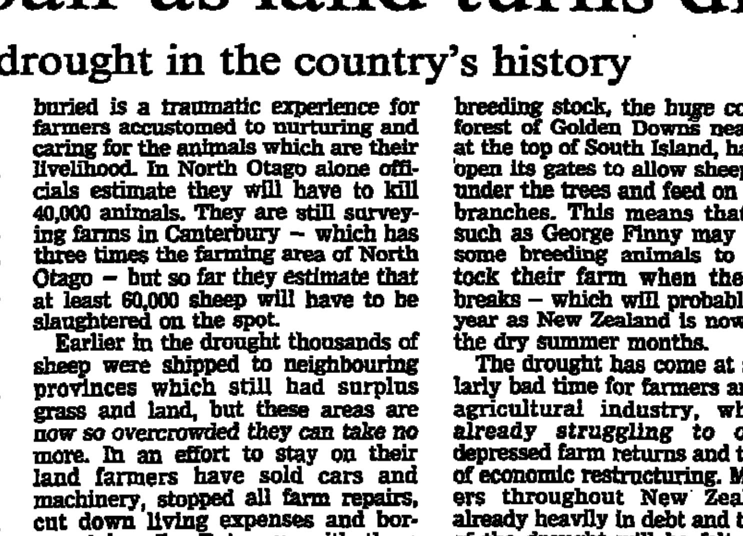
CATTLEFARMER George Finny recently watched 40 of his best breeding stock and their calves leave his drought-stricken farm in North Canterbury, New Zealand, on a six-hour journey by truck to survival.

The cattle were starving but at least they were alive. The rest of his herd is either dead from starvation or sold to the meat processing works for a fraction of their normal value.

The last 40 beasts from Finny's farm were part of 4,000 breeding cattle shipped hundreds of miles last weekend in a government-backed bid to salvage some breeding stock from the effects of the most disastrous drought in New Zealand's history.

Hundreds of farmers along most of the east coast of South Island have faced despair as they watched crops wither and die, soil dry up and blow away, sheep and cattle starve and debt pile up.

Official estimates put the cost of the drought at a minimum of NZ$400m (£140m). It will cost 11,000 jobs at a time when unemployment is at record levels. Many farmers who would normally have 2-3,000 sheep fattening on the spring grass are looking



at empty paddocks. Dozens are facing ruin. Recognising the plight of farmers forced to leave their land and abandon their farms to the banks and finance houses, the Government has budgeted NZ$45m to provide grants of NZ$45,000 to help them start a new life in the city.

The drought began several months ago in South Canterbury and North Otago, an area of prime sheep and lamb-producing farms. As the hoped-for spring rains did not arrive, the drought spread into the wheat-growing areas of Central Canterbury and the sheep and cattle-grazing country of North Canterbury. It is now biting at the sheep farms of Marlborough to the north. Wheat production in Canterbury's main wheat-growing area is down by 75 per cent. Last year 7m lambs were born in the drought-stricken area. Next season less than 4m lambs are expected to be born.

Hundreds of thousands of sheep are in a pitiful shape. This week government agricultural inspectors started visiting farms to shoot sheep which are so thin they are classed as unfit for human consumption. They expect to kill and bury up to 100,000 animals. Processing works are taking thousands more to be turned into fertiliser or tallow, but the animals have so little fat that tallow production has dropped. The Government is paying for the slaughter of unsaleable stock.

Watching their animals killed and buried is a traumatic experience for farmers accustomed to nurturing and caring for the animals which are their livelihood. In North Otago alone officials estimate they will have to kill 40,000 animals. They are still surveying farms in Canterbury – which has three times the farming area of North Otago – but so far they estimate that at least 60,000 sheep will have to be slaughtered on the spot.

Earlier in the drought thousands of sheep were shipped to neighbouring provinces which still had surplus grass and land, but these areas are now so overcrowded they can take no more. In an effort to stay on their land farmers have sold cars and machinery, stopped all farm repairs, cut down living expenses and borrowed heavily. But even with these economies their future is bleak.

Wheat farmer Bruce Enfield looks at his garage, standing empty because the family car was sold weeks ago. "We can't do more and it's getting worse. The bare soil is blowing away and unless we get lots of rain over the next few weeks we won't be able to plant next year," he said.

In a last ditch effort to save some breeding stock, the huge commercial forest of Golden Downs near Nelson, at the top of South Island, has thrown open its gates to allow sheep to graze under the trees and feed on the lower branches. This means that farmers such as George Finny may still have some breeding animals to help restock their farm when the drought breaks – which will probably be next year as New Zealand is now entering the dry summer months.

The drought has come at a particularly bad time for farmers and for the agricultural industry, which was already struggling to overcome depressed farm returns and the effects of economic restructuring. Most farmers throughout New Zealand are already heavily in debt and the effects of the drought will be felt for many years to come.

Wheat farmers who had hoped to benefit from high world wheat prices have seen their hopes of a profitable year dashed as they have slip further into debt. The Government is worried about the plights of individual farmers and the long term effects of the worst drought in the country's history.

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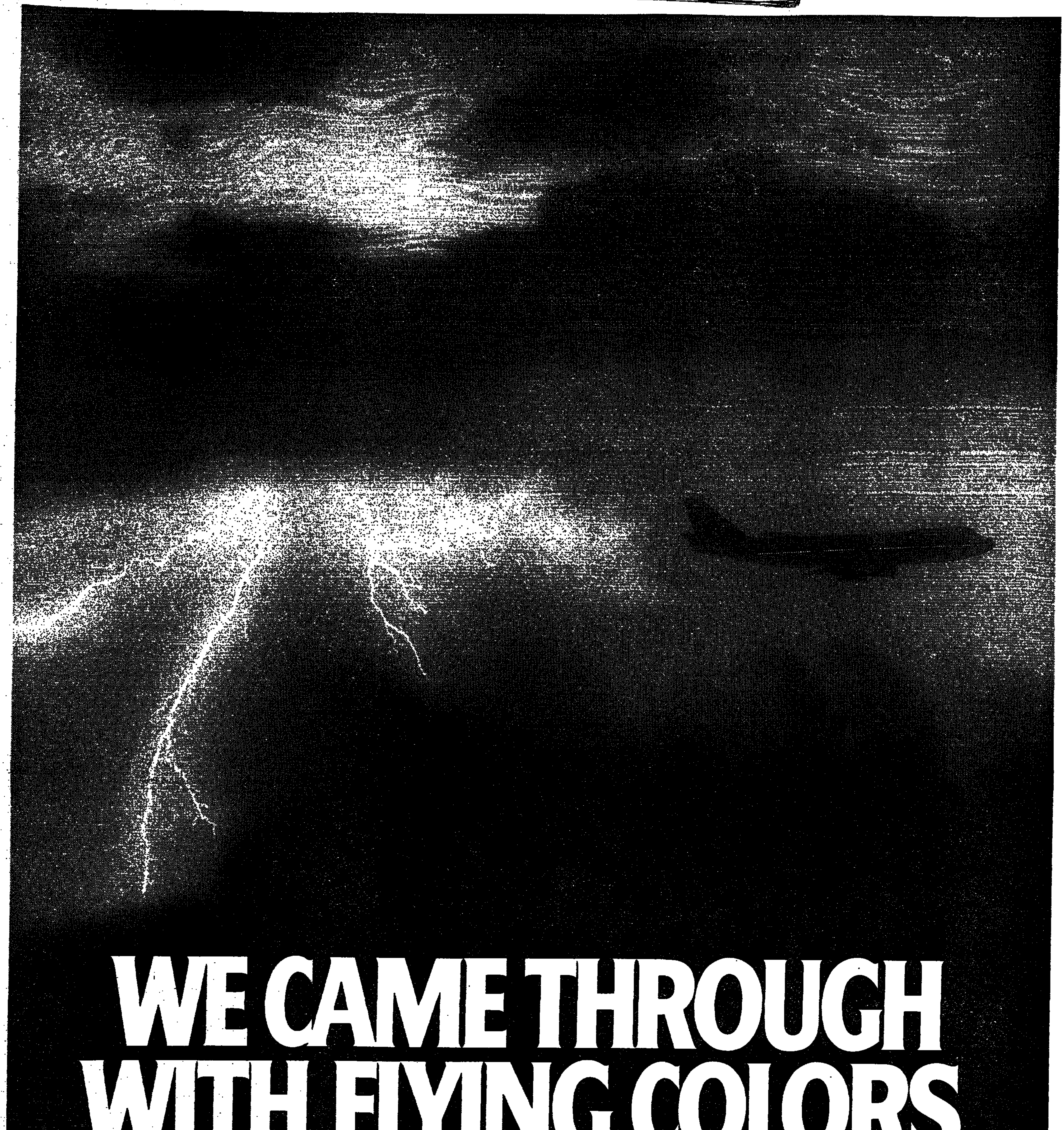


UK NEWS

CEGB weighs options on nuclear future

By Max Wilkinson, Resources Editor

NUCLEAR electricity would cost half as much again as power from a coal fired plant if the two stations were required to earn the average industrial rate of return, according to latest estimates from the Central Electricity Generating Board.

The figures, given yesterday to the inquiry into a planned Pressurised Water Reactor at Hinkley in Somerset, show that on the assumption of a 10 per cent real return on capital employed, building much smaller gas turbine plants would be a cheaper option still.

The calculations show that the question of whether nuclear power is a "good buy" depend on what is assumed to be the cost of the capital employed. This is because a new nuclear plant costs more to build than the alternatives but is then cheaper to run if it can be made to work properly.

The CEGB's latest evidence to the Hinkley enquiry suggests that a new PWR at Hinkley could cost £1.5bn, compared with £770m for an equivalent coal plant of 1,100MW capacity. The nuclear plant would take 78 months to build compared with 60 for the coal plant.

With a high capital cost, charges mount steeply during construction and these could form part of the the planned "nuclear levy."

The CEGB paper shows that if the cost of capital is assumed to be 5 per cent in real terms, nuclear power would have the edge over a coal plant. With an 8 per cent real return, the two plants would be about equal. This is the board's basic case.

However, the CEGB is now making more favourable assumptions about the performace and lifespan of its nuclear plant than it did at the enquiry into the PWR at Sizewell in Suffolk. It is now assuming a life of 40 years compared with 35 and and that it would produce power for 75 per cent of the time compared with 64 per cent.

The study also shows that costs mount fast if nuclear plant fails to meet performance targets. Nevertheless, the board points out that nuclear power would be a good buy if coal prices rose much faster than expected. On these grounds, it believes the nuclear programme should go ahead as an insurance.

British Rail seeks single union no strike deal

By Jimmy Burns

BRITISH RAIL has become the first public sector employer to seek a single-union no-strike workplace agreement in an attempt to be the main operator of a light railway system to be built in Manchester.

It also planning to extend a flexible salary structure based on locally negotiated productivity-linked and performance-related payments to all its 133,000 staff.

The moves form part of a strategy by BR management to transform the traditional work practices as a way of improving efficiency in the run-up to privatisation under a future Tory government.

Last night BR said it was appointing Mr Brian Burdsall, at present director of BR's Parcels Sector, to a newly created post of Director of Quality.

He is expected to co-ordinate work place-based problem solving and quality groups similar to quality circles which some unions say circumvent collective bargaining.

Mr Paul Watkinson, BR's chief personnel director, said: "We can no longer continue to support the industrial relations structure of yesterday."

Curry gives dry throat to City of London

THE PUBS and wine bars in the City of London were open at 11am as usual yesterday, but in an amazing display of self-denial several dozen journalists and photographers decided to forego their usual tipple, Philip Coggan writes.

Instead they flocked to hear the latest words of wisdom on the health of the nation from Mrs Edwina Currie, the Junior Health Minister. She is now famous for her remarks on the need in winter for the elderly to wear woolly hats to keep warm, the *bas cuisine* enjoyed in the North of England and, earlier this week, on the dangers of eating eggs affected by salmonella.

This time, Mrs Currie was giving her backing to a campaign called City Drinksense, which aims to give information and counselling to problem drinkers and their employers in the London financial district.

"It is possible to enjoy life enormously without being flat on your back through alcohol abuse," said Mrs Currie, who was herself still upright and kicking despite the recent attempts of her critics to knock her flat.

Mr Ray Hatter, the co-ordinator of the campaign, estimated that 40,000 people in the City (out of some 300,000 workers) had alcohol-related problems, that 150,000 City working days were lost every year due to alcohol sickness and the annual cost to City corporations was about £8m.

Sir Bernard Braine, MP, fulminated against the "lager louts here in this great City of London" and the assembled group toasted the project with Tennent's LA alcohol-free lager.

This picture of a City teeming with drink-sodden stockbrokers could help explain many recent events. Those traders who have been worrying about the record trade deficit and rising inflation can now relax – they have been seeing double

Perhaps last year's stock market crash can now be blamed on the after-effects of an extremely heavy binge on Sunday, October 18. Hungover traders were forced to sit in darkened rooms, thus causing the day to be dubbed Black Monday.

Yesterday, however, the vultures of the press were far more interested in Mrs Currie's views on eggs than on beer. Over the weekend, the minister had alarmed the public and infuriated the poultry industry by stating that "most of the country's egg production" was affected by an outbreak of salmonella.

The hard-boiled health minister refused to withdraw her remarks. She said that 20,000 cases of salmonella had been diagnosed in the first 10 months of the year. Of these, some 11,000 were cases of *salmonella enteritidis*, a strain associated with poultry, and 1,000 cases had been definitely linked with egg consumption.

Asked about threats of legal action from the British Egg Industry Council she said that she had been advised that the council would have some difficulty making a case.

With that comment, the conference finished and the journalists quickly headed for the door. Thanks to the Government's recent extension of pub opening times, there were still 10½ drinking hours left in the day.

Salmonella on the menu, Page 14

Alarm greets liquidity plans

By David Barchard

THE BANK of England yesterday published proposals on liquidity requirements for UK banks and met a cool reception from the British Bankers Association.

Mr John Craig, chairman of the association's executive committee, warned that the proposals could cause difficulties for several UK banks. They were tougher than those used in other international banking centres and might damage the competitive position of banks in the UK, he said.

Several banks have expressed fears of being disadvantaged. Foreign banks with UK branches, particularly those which trade in currencies other than sterling, are likely to find the proposals onerous, although the Bank has eased some conditions after protests from Japanese banks.

The Bank's consultative paper follows two years of discussions with banks about the criteria on which they should build up a "war chest" of liquid funds to be held in permanent readiness

The Bank outlines two tiers of assets. The top tier would consist of easily disposable sterling assets such as cash, UK Treasury Bills and short-term gilt-edged securities. The second tier would be made up of longer term assets.

The Bank would decide what percentage of each bank's total short-term liabilities, within a range of 10 to 25 per cent, should be matched by assets from the two tiers.

BSB enlarges film library with $300m rights acquisitions

By Raymond Snoddy

BRITISH Satellite Broadcasting is to pay more than $300m (£170m) for the right to show some 650 feature films from two leading US studios, Paramount Pictures and MCA/Universal.

The films include the 1988 hits Fatal Attraction and Crocodile Dundee II and Oscar winners such as Out of Africa and Children of a Lesser God.

It is BSB's second large film acquisition deal within a week. Last Wednesday, the UK satellite television venture, which plans to begin broadcasting next autumn, agreed to pay Columbia more than $160m for the rights to broadcast 175 films on its subscription film channel.

The Paramount-Universal deal, clinched in Los Angeles last week, brings to more than 1,750 the number of feature films that BSB has the right to show. The sums involved, phased over five years, amount to more than $700m.

The two studios originally offered a five-year deal to both BSB and Mr Rupert Murdoch's Sky Television for $800m. Sky plans to broadcast five channels, including a film channel, from February 1 on the Astra satellite due to be launched on Friday. Sky dropped out of the competition because it believed the price was too high.

BSB declined to reveal the final price agreed but it is believed to be between $300m and $400m for a different package to that initially offered. BSB has also bought the UK broadcasting rights for the package of films which it estimates should be worth more than $60m.

The five-year agreement will guarantee BSB the exclusive rights to show at least 30 new films a year on British pay television, plus 500 library films and up to 200 made-for-television movies.

BSB, which will be seeking to raise more than £500m next year to add to existing financial backing of more than £200m, has also reached smaller deals with four other US film companies, Warner, MGM-UA and Mr David Puttnam's new film company.

Mr Murdoch has guaranteed access to films from his own studio Twentieth Century Fox and, following a joint venture with the Disney organisation, to Touchstone, the Disney contemporary film studio.

The rights battle between BSB, whose investors include Granada, the Bond Corporation and Pearson (owners of the Financial Times), and Sky illustrates the emphasis being given to film channels on satellite television.

Market research suggests that newly released films are one of the most attractive pay television options for viewers.

● ESPN, the US satellite sports channel, is to increase its stake in Screen Sport, W.H. Smith's European sports channel, from 35 per cent to 25 per cent. The American company will pay £4.4m for the increased stake valuing Screen Sport at £20.5m. Screen Sport and W.H. Smith's other satellite television channel Lifestyle will join Sky Television on Astra in February.

BP chief calls for higher, more stable oil prices

By Steven Butler

MR ROBERT HORTON, the managing director of British Petroleum, yesterday issued a broad call for more stable, higher and more "realistic" oil prices that would reflect both the costs of exploring for oil and the cost of environmental protection, which was likely to continue rising.

Mr Horton, speaking at a Financial Times conference on the Outlook for Oil, said he believed that last week's production agreement by the Organisation of Petroleum Exporting Countries might be a significant step toward stability in oil markets.

He also called indirectly for greater co-operation between oil producers and consumers.

Mr Horton sought a more open market for gas in the UK, and said recent regulatory solutions imposed by the Monopolies and Mergers Commission on the UK gas market would be acceptable provided they gave impetus to a further opening of the market. Gas, he predicted, would increase in value because it was environmentally more attractive.

Mr Horton warned that the EEC needed to move cautiously as it set ground rules for European companies, and must be careful not to impose standards for companies whose operations were global.

Mr Charles DiBona, president of the American Petroleum Institute, called on the US government to take firm measures which would slow the inevitable decline of US oil production. This should be done, he said, by opening new land for exploration, providing new tax incentives for exploration and production and by using restraint in requirements for environmental protection.

He said these measures could lift US production by several hundred thousand barrels a day in a few years, and by 2m b/d within 15 years. This would reduce world oil prices, reduce US imports, increase domestic investment and employment, improve the US trade balance and result in more federal taxes.

Mr Ted White, chairman of the PEL group, said the past year has seen a sharp reduction of the amount of Opec oil sold under term contracts, and that official price sales have virtually ended. Seventy per cent of Opec sales had moved on the basis of market related prices this year, compared to 40 per cent in 1987.

This change in the structure of the market is reflected in last week's Opec agreement, in which $18 was mentioned only as a reference price which the cartel hoped by achieve by volume restraints.

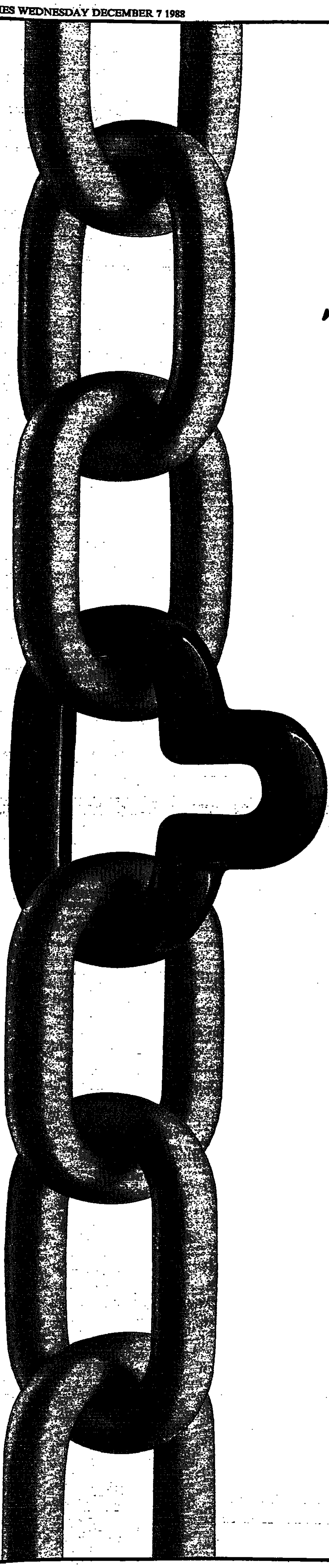
Mr Graham Hearne, chief executive of Enterprise Oil, stressed that the critical task for an independent oil company was to prepare for the sharp cyclical swings in the industry, in which the independents are exposed more directly to the fluctuations of oil prices. Protection involved developing oil reserves that were balanced as to maturity, thus reducing exposure to short term price swings, and putting in place long term finance.

Dr Frank Schmidt, executive director of the Association of the German Oil industry, said that the European refining industry was still burdened by significant overcapicty and that this overcapacity was hurting both countries that had cut back sharply on capacity, such as Germany, as well as those countries where capacity remained in surplus.

Mr Jim Walker, energy economist at the Royal Bank of Scotland Group, said weak margins at the heavier end of the oil market would continue to be a drag on total returns, despite higher profitability of lighter products where capacity has risen due to increases in conversion facilities.

Mr Michael Welland, manager, exploration planning at Arco International Oil and Gas, detailed production and market conditions throughout the Asia-Pacific region. He suggested that while it was possible the region could become self-sufficient in oil this remained unlikely due to sharply rising demand.

Mr Bart Collins, director of Petroleum Price Monitors, discussed the effects on the downstream European markets of a sharp drop in oil demand from 714m tonnes a year in 1979-1980 to 585m tonnes today, leading to a consolidation of the market among major players.



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UK NEWS

Labour advocates fiscal incentives for research

By David Fishlock, Science Editor

A £5BN BOOST for Britain's civil research and development, achieved mainly by offering fiscal incentives to industry, would be the target of a future Labour Government.

It would cut defence R and D by £1.1bn a year – about a third – and increase the science budget in support of higher education by £500m a year.

Government support of civil R and D in energy, industry and the environment would be increased by £200m a year.

However, the aim would be to persuade industry to provide most of the increase in its R and D.

Those proposals are in Science for the Citizen, a policy review paper launched by Mr Jeremy Bray, Labour spokesman for science and technology, at a press conference in London yesterday.

It calls for the increase in public funding to be met mainly by industry, as the eventual beneficiary, through an increase in corporation tax.

The paper says an increase of £5bn a year, mainly in civil R and D done in industry, is needed for Britain to match its international competitors.

"To gain the benefit of that in jobs requires an increase of £20bn in fixed investment and a further £20bn in start-up costs".

It believes those levels "are achievable over a period of years". They should generate 2m jobs and secure the balance of payments.

The paper urges a policy of collaboration within Nato on defence R and D, and an objective for Britain of spending no more than France in the short term, and less in the longer term.

It wants work by the defence research establishments scrutinised by its proposed strategic research planning system "to see if it cannot be done better in a civil research environment where it would find much wider application."

In civil R and D, it accepts that choice and direction must remain with companies, but says government will co-operate with them in "a continuing review of exploitable areas of science and technology."

That would embrace not only technical factors but also particular interests and comparative advantages of Britain and its firms in world markets.

It proposes an R and D grant for any firm exceeding 100 employees, subject to qualifications such as that the R and D must be done in the UK.

Areas excluded include market research, quality control and "cosmetic modification of products."

It offers a formula for calculating such grants, intended to channel proportionately more of the money to companies that had been doing little research.

Industrial start-ups and manufacturing companies with fewer than 100 employees would be eligible for R and D grants of up to 75 per cent of the cost.

It calculates that the cost of its incentive scheme to the exchequer would be £1bn-£2bn.

Science allocations for schools under fire

By David Thomas, Education Correspondent

LEADING scientists, engineers and teachers yesterday attacked the proposal that some 14-16 year olds spend only 12.5 per cent of their time on science as part of the new UK national curriculum.

The reaction came a day after the proposal was made in a report on science teaching by the National Curriculum Council, the body charged with overseeing the new curriculum. The council wants most 14-16 year olds to spend a fifth of their time on science, but bowed with some reluctance to suggestions by Mr Kenneth Baker, Education Secretary, that some pupils should be able to follow the 12.5 per cent option.

The proposal was roundly attacked at a conference in London on the science curriculum and attended by leading industrialists, engineers and scientists and organised by the Royal Society and the Engineering Council.

Speaking in the presence of Mr Baker, Sir George Porter, president of the Royal Society, urged the Government to reject the 12.5 per cent option, arguing that early specialism was a key factor behind Britain's poor economic performance.

Mr Graham Hill, a deputy headmaster and chairman of the Association for Science Education, said that pupils would not be able to cope with Advanced-level science after spending only 12.5 per cent of their time on science. Professor Dick West of the Open University said the option, which was not supported by any substantial body of opinion, offered "a second rate scientific education."

Mr Baker, who told the conference that the national curriculum would boost the quantity and quality of science education, refused to comment in detail on the 12.5 per cent option, other than to say it had been endorsed by the National Curriculum Council. He rejected the suggestion that the 12.5 per cent option was forced on the Government because of teacher shortages in scientific subjects.

Short Brothers bids free of conditions

By Lynton McLain

THE GOVERNMENT has set no conditions or constraints on bidders for Short Brothers, the Belfast aerospace company to be privatised next year.

Kleinwort Benson, the merchant bank advising the Government on its sale, said the Government was not insisting as a precondition that buyers should guarantee to keep Short Brothers in the airliner business. Other sectors might be just as useful for employment in Northern Ireland.

In Northern Ireland there is considerable concern at the possible break-up of Short Brothers' existing three divisions – aircraft, missiles and aerospace structures.

The Government would prefer the company not to be broken up, but bidders are not to be required to guarantee that the company will stay as a single entity.

Fewer than 30 companies registered their interest as potential buyers of Short Brothers by the deadline of last Friday.

The companies were mainly in the aerospace and electronics sectors in the UK, continental Europe and North America.

Foreign vehicles make further inroads in UK market share

Car sales accelerate to top level

By John Griffiths

MORE NEW cars, a total of 2,123,948, have been sold in the UK during the first 11 months of this year than during all of 1987, which itself saw record sales for the third year in a row.

But the price in balance of trade terms has been a jump of around 206,000 to 1,200,948, in the number of imported cars sold so far this year and a rise in their market share to 56.52 per cent from 51.73 per cent.

Statistics from the Society of Motor Manufacturers and Traders show that sales last month were the highest on record for any November. The sales stood at 149,398, up 5.79 per cent on the same month a year ago.

Although this increase was bigger than the 2.59 per cent sales growth recorded in October, it was well below the 10.48 per cent growth for the first 11 months as a whole compared with the 1987 period. It thus appears to provide further evidence that the UK's prolonged new car sales boom may at last be running out of steam. The SMMT has already forecast a slight drop in sales next year to 2.1m.

The gains made by imports last month – their share rose to 57.52 per cent from 52.76 per cent a year ago – were made across a wide front.

Nissan's Micra model pushed itself into seventh place in the month's list of top 10 best sellers, helping Nissan capture a 6.85 per cent market share, even though sales of the UK-assembled Bluebird fell by 14 per cent compared with a year ago.

In market share terms, last month's big loser was Ford, whose share slipped to 25.87 per cent from 29.73 per cent the previous November. Hit by a strike last February, Ford's share for the year to date is running more than two percentage points lower than last year, at 26.41 per cent. Nevertheless, its Sierra model topped the best-seller list in November and with the second-placed Escort it continued to hold off the growing challenge from Vauxhall's new Cavalier, which occupied third place for the second month in a row.

The Cavalier played a key role in helping Vauxhall lift its market share by nearly a percentage point, to 14.35 per cent, compared with a year ago.

However, the Rover group once again lost ground, its November share falling to 11.99 per cent against 12.54 per cent the previous November, sending its share for the year to date below 15 per cent for the first time.

The Peugeot group, including Citroen, came its closest ever to reaching a double-figure share of the market, jointly achieving 9.72 per cent.

● Jaguar, the UK luxury car maker, increased its sales in the US, its single biggest market, by almost 10 per cent in November compared with the same month last year, writes Kevin Done.

The rise ends a six-month run of falling sales volumes in the world's most important luxury car market. Jaguar said its US sales in November rose by 9.3 per cent to 1,925 units from 1,761 units a year ago.

For the first 11 months Jaguar's US sales were 6.9 per cent lower at 18,687 units compared with 20,071 units a year earlier. In spite of the drop, Jaguar has performed better than most of the European luxury car makers in the US this year.

Jaguar has compensated for its lower US sales with higher sales in the rest of the world, particularly in the UK, in some continental European markets and in Japan. In the first nine months total sales volumes rose by 8 per cent.

The company has managed to reduce its overwhelming dependence on the US market but in the first nine months of the year the US still accounted for 40 per cent of total sales volumes.

UK CAR REGISTRATIONS

	November				Year to date			
	1988	%	1987	%	1988	%	1988	%
Total market	149398	100.00	141224	100.00	2123948	100.00	1922469	100.00
UK produced	63469	42.48	66711	47.24	923514	43.48	927993	48.27
Imports	85929	57.52	74513	52.76	1200434	56.52	994416	51.73
Ford	38654	25.87	41992	29.73	560924	26.41	550081	28.61
Rover group	17915	11.99	17710	12.54	317501	14.95	289195	15.04
Vauxhall/Opel	21735	14.35	18928	13.40	287651	13.54	258770	13.46
Peugeot/Citroen	14572	9.82	10763	7.63	187008	8.81	141023	7.33
Audi/VW/Seat	10193	6.84	7921	5.62	126254	5.95	111365	5.80
Nissan	10232	6.85	9477	6.71	129703	6.11	107872	5.61
Renault	4988	3.34	5806	4.11	83111	3.91	76402	3.97
Volvo	6357	4.26	5438	3.85	76330	3.59	66782	3.47
Fiat/Alfa/Lancia	5295	3.54	4560	3.23	78556	3.70	70752	3.68

Source: Society of Motor Manufacturers and traders

Brussels puts salmonella on the menu

By Tim Dickson in Brussels

THE ISSUE of salmonella poisoning from eggs – subject of a growing political row in the UK over the past few days – is expected to be raised at a meeting of European Community veterinary officials in Brussels this morning.

Experts at the European Commission have become increasingly anxious in recent months about the spread of salmonellosis, the disease which is caused by salmonella, and decided to put the item on today's agenda after reports were received that a small number of cross-border cheese consignments had recently been infected.

The feeling in Brussels is that the fear whipped up over eggs in the UK in the past week has been greatly overdone, but a Commission spokesman commented last night: "The problems in Britain are certain to be raised in the context of what is happening, and what safeguards are being taken, all over the Community."

Some food hygiene laws in the EC are already harmonised – there are, for example, strict common testing and inspecting requirements for meat slaughterhouses – but officials stressed yesterday that no new proposals relating to salmonella were being planned at this stage.

"It is really seen as a subject for us to keep a close eye on and the idea at today's session is that the Commission's vets will try to get a picture of the situation in member states, notably the sort of control procedures being applied, which will enable them to see whether longer term we need to look at the problem on a Community level," the spokesman explained.

According to Brussels, no other reports about salmonella poisoning from eggs have so far been received from elsewhere in the Community. The problem has long been recognised as being fairly common in agricultural and catering environments but the level of concern in Brussels was raised with the reports that the disease had been discovered in several consignments of vacherin cheese.

The main role of the EC's veterinary committee, which meets every month and which comprises representatives from all 12 member states, is to approve routine management decisions taken by the Commission.

What employers really seek in applications

By Michael Dixon

WHEN you apply for jobs, have you ever wondered what is uppermost in the minds of the people doing the recruiting?

If you asked them, of course, it is odds on that they would claim their prime concern is to employ the right person. But a report* just published by Britain's Independent Institute of Manpower Studies begs to differ.

It indicates that the majority of recruiters are primarily concerned to *avoid* employing the *wrong* person. Indeed their approach is negative enough to justify re-naming the bulk of them Rebwacim – the reverse of Charles Dickens's Micawber. Whereas he went through life looking for something to turn up, they are looking for someone to turn down.

"Most of the recruitment and selection which goes on in United Kingdom organisations relies on the ability of personnel and line managers to disqualify inappropriate candidates," declares the institute's report on a survey of 320 assorted employing concerns around Britain.

It adds that such positive attempts as are made to identify the best equipped candidates hardly live up to companies' strident claims that people are their most important asset. "It seems unlikely that a business would evaluate the probable performance of a major piece of new capital equipment with the lenience with which potential employees are typically assessed."

Moreover – to judge by the research the survey quotes on the reliability of the selection methods in common use in the United States, Canada, Australia and Hong Kong – much the same applies there too. And while it is to be hoped that jobs are filled more sensibly elsewhere in the world, I somehow doubt it.

Main methods

The UK recruiters relied predominantly on just three methods, all used by more than nine in every 10 of the organisations surveyed. The most widespread of the three was interviewing. Next came checking each candidate's curriculum vitae (CV) or completed application form against pre-set criteria of acceptability. Third was examination of references from previous employers.

What demonstrated the negative approach to the recruiting exercise was the organisations' reasons for using the three techniques. When the 320 were asked to state the uses for which the methods are effective, more of them cited weeding out applicants unsuited to the job than cited identifying candidates' ability to succeed in it:

Method of selection	*Weed out* %	*Identify success* %
Interviews	62	39
CV checks	81	24
References	34	32

But even though those methods were considered most useful for detecting who to reject, they were still largely seen as effective for positive purposes also. The percentages of recruiters who said the three techniques were reasonably reliable predictors of a candidate's success in the job, and the shares admitting ignorance about the matter were:

Method of selection	*Reliable predictor* %	*Don't know* %
Interviews	96	2
CV checks	79	4
References	74	11

Unfortunately, the great weight of research evidence tells the opposite story.

"For example," the report says, "the selection interview appears to predict poorly whether or not a candidate's eventual supervisor thinks he/she is a good performer. It predicts whether or not the candidate will be promoted with even less reliability. It predicts success in training a little better than promotion, but still not very well, and it predicts how long the candidate will stay with the organisation very poorly indeed."

Other studies have found that interviewers' accuracy is not improved by training. What is more, their decisions have been shown to be much influenced by their previous judgments of candidates' written applications which, alas, are also unreliable predictors of job success.

The reasons include the tendency of individual recruiters to draw different lessons from the same facts. One may see applicants who have frequently changed employers as mines of wide and valuable experience, while another views them as flibbertigibbets.

A further snag lies in the criteria by which written applications are judged.

For one thing, standards of acceptability are often irrelevant to work needs. Research on the link between academic attainment and success in jobs – including most in management – is ambivalent, to say the least. The report says there is now "considerable evidence" that handwriting analysis, used by one in 20 of the employers studied, is a false guide to working abilities.

Worse still is that entry standards are apt to be arbitrarily raised or lowered in response to shifts in the jobs market. "It is impossible to use such adjustable recruitment filters as reliable and predictive performance criteria," the institute's researchers state.

As for references from previous workplaces: "Very few employers with whom we spoke could remember ever receiving anything other than the most mildly critical reference about a candidate." (That comment does not apply so largely to the checks made by 36 per cent of the organisations on some applicants' credit and security records, and more rarely their political stance.)

Better ways

The report takes a kinder view, however, of the newer selection tools such as tests of trainability, personality and mental skills including physical dexterity. While not greatly more accurate than interviewing and so on, they offer a useful gain which looks sure to become more important as the fall in the young population sharpens competition for recruits.

The trouble is that, whereas over 90 per cent of the employers used the poor methods, only a minority had turned to the better kinds. Moreover, they were using them largely as an act of faith. When they were asked if the various tests were reliable, the results were:

Type of test	*Reliable predictor* %	*Don't know* %
Trainability	30	69
Personality	19	78
Mental skills	17	83

Nevertheless the root problem is not ignorance – which can be remedied – but recruiters' laziness in relying on certain methods without studying their strengths and faults.

Even interviewing can be made more reliable if the questions are structured and, most important of all, focused on the actual needs of the work to be done. As the report says, it does not require awesome scientific analysis to learn what those key needs are. They are just the things the job-holder has to do well every time.

**Employee selection in the UK, by Stephen Bevan and Julie Fryatt. IMS, Mantell Building, University of Sussex, Brighton BN1 9RF.*

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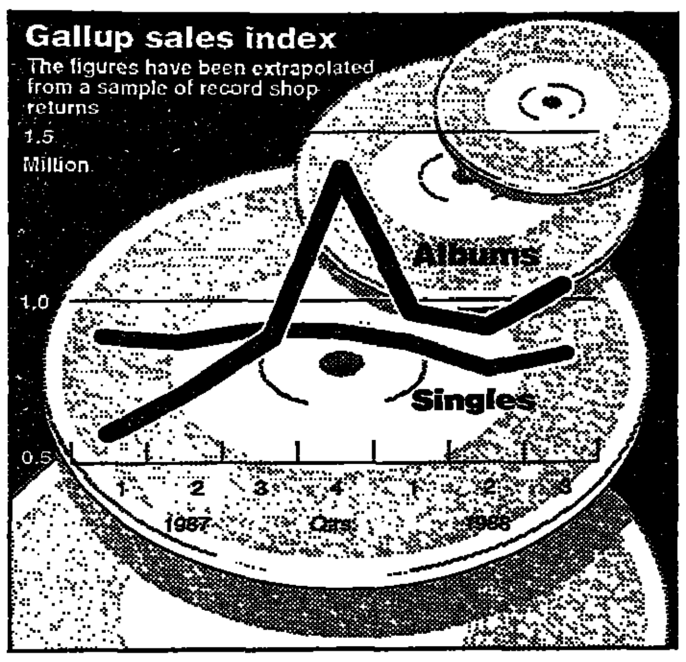


Christmas is coming and the charts are getting fat

Paul Abrahams finds that the UK record industry is making the most of an electronic marketing tool

If Kylie Minogue – the teeny-bopper heart-throb born of the TV series Neighbours – reaches number one in the UK album charts this Christmas, it will be in no small part thanks to computers.

Her success will have been assisted not only by the machines that allow her producers, Stock, Aitkin and Waterman, to manipulate her music, but also by a computer network that helps record companies and retailers to market singles and albums.

"The record industry is unique," says John Pinder, charts manager at Gallup, the UK market research company which uses the network to compile marketing information. "In no other industry can you see as many as 150 new product lines launched in a single week. And there are few where the lifespan of the products can be as little as six weeks. Record companies need up-to-date data on the sales of as many as 80,000 different products. With the network we can provide what's needed."

Such data, say record companies, is vital if they are to react quickly in a highly fashion-orientated market – which, according to analysts James Capel in London, was worth £571.5m last year.

The information is particularly vital in the weeks before Christmas. Max Dolding, of James Capel, says that 40 per cent of unit sales occur in the last quarter of the year. And because most of the increased sales in that period are albums (defined as compact discs, cassettes and LPs) – which are much more lucrative than vinyl singles – actual revenue in the last quarter can be two and a half times that of the first quarter.

Gallup gathers information daily from a sample of 850 retailers. Every shop has an Epson computer linked to a light wand. The wand reads bar-codes on each item and registers the sale on disk. At midnight, the information is sent from the disk via modem back to Gallup headquarters in London.

Collecting data in this way avoids the inaccuracies of manual methods. However, some items still lack bar codes and their ordering numbers have to be punched in by hand. Gallup has developed a statistical program which runs checks for mistakes made in entering. The same program monitors sales to try to detect attempts by groups to "ramp" their record – create a false impression of the market by buying up copies of their product.

A final check is provided by comparing the data captured by the electronic system with information on the top 150 records gathered from a questionnaire sent out to other shops.

Once the data from the beginning of the week has been processed, a mid-week chart is made available to the record companies on Thursdays and Fridays. They can then react to unexpected moves.

"The mid-week chart gives a rough guide to what's happening," says Andrew Pryor, director of pop marketing at EMI Records. "The main thing is that it allows you further to exploit a winner if it unexpectedly flies. It also prevents you wasting time trying to push an album which has come to a dead stop.

"For example, if we see that a record has reached the top 75, we might push it with advertising in the press or put out a television ad on Friday night to help sales on Saturday – the day when we register most of our sales."

Pryor says that the mid-week charts are also important for stock control. He points out that the company needs to make quick decisions to avoid distribution mistakes, particularly over Christmas when the shops need to have the right albums at the right time.

"A few weeks ago Cliff Richard launched a record, but we had no way of knowing if it was going to make the top 30 or the top 10," says Pryor. "In fact, it went straight into the mid-week chart at number five and we were able to anticipate Saturday demand by delivering stock on the Friday morning."

At the end of the week all the data is processed to produce the weekly chart broadcast on Sunday afternoons on BBC Radio One.

The results of the weekly chart are supplied to the record companies and retailers on a regional basis as well as by television area. They are also broken down by type of sale (LP, cassette and compact disc). This information allows the companies to work out the effect of advertising in particular areas for particular records.

"The first time we advertised in a television area, we were able to compare the impact of the slot with neighbouring areas which hadn't run the advertisement," says John Rowland, general manager of sounds and vision at W. H. Smith, the retail and distribution company.

"The result was that we registered the effect of a single advertisement for an album in the next day's sales. The album was a Chris de Burgh release and we saw our market share immediately pick up around nine to 10 extra points."

Andrew Pryor at EMI agrees that the weekly information about television areas is vital. He explains that he has a television advertising budget of about £1.5m to push perhaps eight albums between November and Christmas.

"I need to know whether the advertisement is working. If it isn't I need to cut it. If it is, I need to know if I should roll it out into other areas."

John Rowland says that the other main advantage of the weekly information is that it supplies a national breakdown of market share. "We already have electronic point of sale in our 290 shops to help us with stock control, but the Gallup figures let us know how we're performing in the market."

EMI says that the figures, which give information about the sales of different albums in different formats, allows the company to make strategic marketing decisions. For example, Gallup picked up the decline in vinyl sales and increase in purchases of compact disc singles very quickly.

"What the Gallup system means is that the UK record industry has one of the most advanced market research tools in the world," says Peter Scaping, general manager of research and information at the British Phonographic Industry.

"The ability to react is one of the reasons why the UK industry has such innovative and successful acts, and why it continues to have a high level of visible exports. The Gallup chart may cost £750,000 a year, but it's worth every penny."

Roy Garner reports on the Fifth Generation Computer Conference

Hype gives way to respect

More than 1,600 computer experts gathered in Tokyo last week for an international conference designed to review progress on the Fifth Generation Computer Project, a 10-year research venture announced in 1981.

In contrast with the media spectacular of the project's earlier international meetings in 1981 and 1984, excitement was restricted to academic jousting over such issues as the difference between "parallelism" and "concurrency" in computing. Indeed, the project appeared to have entered a kind of respectable middle-age.

The project's name alludes to the various "generations" of computers, from the days of valves and transistors to the current Von Neumann architecture based on sequential control. It is managed by the Institute for New Generation Computer Technology (Icot).

One reason for the original burst of attention focused on the fifth generation project was its portrayal as an acid test of the "application-oriented, creativity-deficient" Japanese ability to organise and succeed in "basic" research.

Fifth generation computers will eventually offer parallel processing, structured memory, inference and knowledge processing – attributes which correspond closely to the workings of the human brain. Users should be able to operate them with natural speech, freeing them from difficulties associated with the keyboard.

Evaluating the project, however, is difficult because its original aims were vaguely defined and fell prey to sensationalisation. Controversies have repeatedly surfaced over what the Japanese claim they can achieve.

The first two of the project's three stages have been completed. Stage one (1982-1985) was devoted to basic computer technologies; stage 2, just completed, has entailed the development of experimental, small-scale sub-systems; and the final stage (1989-1991) will concentrate on producing a prototype system.

Kazuhiro Fuchi, the research director, has admitted that the project, as originally conceived, was over-ambitious. His newly cautious description of the objectives are first, "that we wanted to come up with a system based on logical inference. Second, we wanted to achieve a parallel implementation of the logical inference function. We wanted to come up with proof, in hardware and software, that we could implement this function."

And he adds that the functions at the core of the subsystems under development "will not be in practical use next year, or even when this project ends in 1991. We're aiming towards the 21st century."

When asked at the conference how he would measure the success of the project, Fuchi would only say that "my evaluation of its success will be based on the verdict of the press five years after the project's completion."

The systems demonstrated at the conference included an experimental parallel operating system (Pimos) working alongside an experimental parallel inference machine, the multipersonal sequential inference (PSI) unit, which consists of 64 processing elements. The function of drawing inferences adds a new dimension to information processing.

On show was a discourse understanding system that can read and answer simple questions on a Japanese text of more than 100 sentences

Also on show was the Duals (version 3), a discourse understanding system that can read and answer simple questions on a Japanese text of more than 100 sentences. The system processes the contents of a sixth-grade elementary school textbook, assigns a context to the information, draws inferences and answers questions.

The Icot team announced that a prototype parallel inference machine (Pim), containing 128 central processing units (CPUs), each of which contains millions of memory and input-output integrated circuits on a single chip, would probably be completed next year. A version could then be built containing 1,000 of the customised CPUs. Parallel processing using the Pim would allow the simultaneous execution of such operations as memory, logic and control, representing a considerable advance in computer system architecture.

A British researcher, David Warren, of the University of Manchester, had high praise for the systems on display. "They've made good progress on developing sequential machines and they're well on the way towards developing a parallel inference machine. I expect that at the end of the last stage they will have a sound and working Pim, which will be able to support a wide range of applications."

One of the fundamental characteristics of the fifth generation project is the choice of logic programming paradigms (the basic mathematical structure) as the cornerstone of research efforts. Much discussion at the conference related to the nature and design of logic programming languages, and the difficulty of defining the different concepts being employed by researchers.

Warren spoke on the parallelism/concurrency issue, offering his definition of the former as "simultaneous computer actions designed to make things go faster," and of concurrency as "where the computer is modelling an application which is naturally thought of in terms of communicating objects or processes." A shared understanding of these definitions was recognised as being critically important to individual research efforts.

Differences of opinion also emerged over research direction. Robin Milner, director of the Laboratory for Foundations of Computer Science at the University of Edinburgh, argued for a less central role for logic, which he contended was having a constricting influence on the project.

"What I disagree with most is the contention that computing can be reduced to logic. I think it would be more fruitful to treat computing as more basic than logic and to say that logic may be reduced to computing. When one talks about the goal of achieving 'logical inference in parallel', to me that should really be the goal of 'increasing computing in parallel' . . . and I think that they've made considerable steps in that direction."

Milner applauded the achievements of the Japanese project, but added "I think the whole scene of computation is actually rather broader than the particular line that the Japanese have chosen."

The choice of logic programming has helped to give the UK and France a high profile in the fifth generation scene because the technique originated in Europe.

Japanese interest in the UK link was reinforced at the conference with the announcement of a new agreement between the Information Engineering Directorate (IED) of the Department of Trade and Industry and Icot, under which two researchers a year will be sent (at UK expense) to spend between six and 12 months at Icot. Over the past seven years, 44 overseas researchers have spent an average of one month each there.

The cost of the fifth generation project is being met by the Ministry for International Trade and Industry (Miti) and eight computer manufacturers. The annual budget is about £22.4m. In addition to funding, the computer companies have also made some of their best researchers available on loan to Icot.

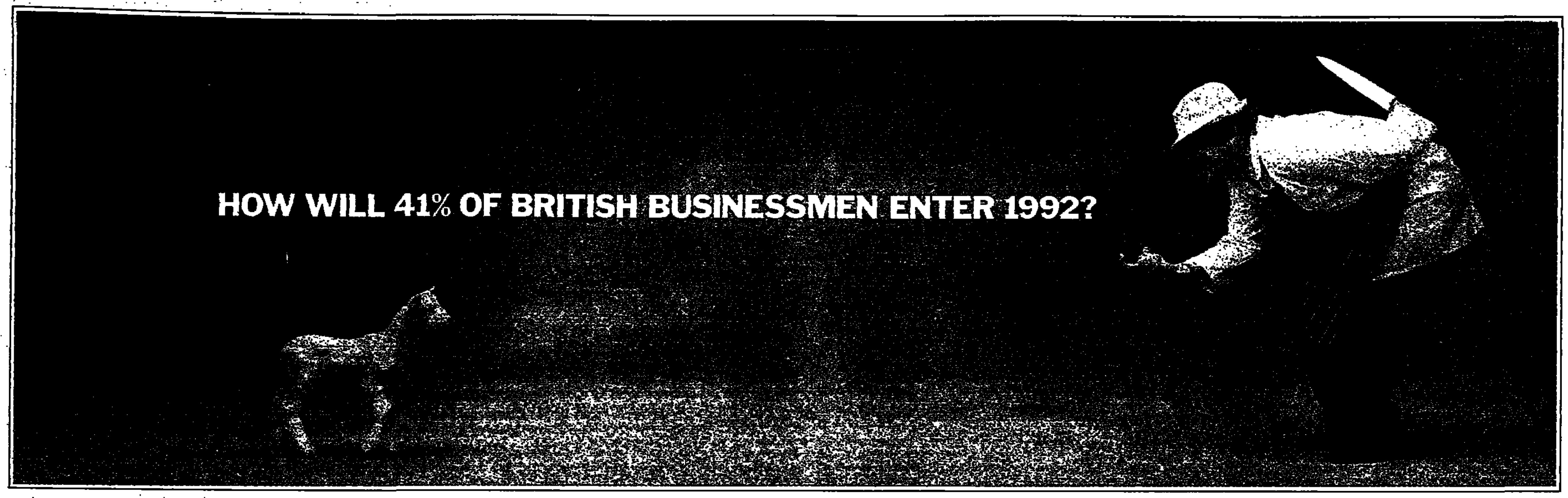
About 100 researchers have worked at the Icot research centre in this year, with another 300 or so involved in related development and programming projects within the companies. A further 200 belong to project promotion committees and working groups within universities and research institutes. Research staff have also been provided by the Nippon Telephone and Telegraph, the international telephone firm KDD, and the Electro-Technical Laboratory.

The conference closed on an upbeat note. One delegate spoke for many when he said that the research work at Icot was easily on a par with comparable work elsewhere in the world.

Ninety-one per cent of British businessmen believe that 1992 will be good for business.

Good news. Well yes, except that behind this statistic lurks another. Forty-one per cent of those surveyed, revealed they had no game-plan whatsoever.

Frankly that's something that worries the life out of us.



In 1992, we'll all be fish in a much larger pond. And whilst this means more opportunities, it also naturally means more predators.

For the fact remains that if you can see an opportunity, so can your rivals.

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MANAGEMENT

A close look at manufacturing practice in competitively successful countries suggests that they are using a strategy which reverses the principles of mass production

A strategy of flexible specialisation

By Paul Hirst and Jonathan Zeitlin

Has British manufacturing industry overcome the problems that beset it in the 1970s? Despite five years of growth in output, employment and productivity, we maintain that the evidence suggests otherwise.

Most UK companies have been slow to adopt the new methods of manufacturing organisation and production which have been the key to industrial success in Britain's main competitor nations, such as West Germany, Italy and Japan.

This micro-economic failure underlies the growing macro-economic difficulties, notably the steadily worsening balance of trade in manufactured goods since 1983.

Since the end of the postwar boom, there has been a fundamental change in international competition; this has transformed the requirements needed to make manufacturing strategies successful.

The increased uncertainty and volatility in the world economy, the internationalisation of trade in manufactured goods between developed countries, and the growing fragmentation of markets within those countries, have allcombined to undercut the conditions for the mass production of standardised goods in many sectors.

Mass production, the prevailing model of industrial efficiency during most of this century, involves the manufacture of standardised goods in long runs using dedicated machinery and predominantly unskilled labour.

Most accounts of the competitive success of countries like Japan assume that the Japanese are simply more efficient at using these methods.

But a closer look at manufacturing practice in those countries suggests that they have responded to the changed international environment by using a strategy which reverses the principles of mass production; this is flexible specialisation.

Flexible specialisation involves the combination of general purpose capital equipment and skilled, adaptable workers to produce a wide and changing range of semi-customised goods.

Manufacturing flexibility and market responsiveness go hand-in-hand, allowing companies to tailor their output to sales trends and carve out new market niches by adapting products to customer needs.

In some cases, this strategy is pursued by interdependent networks of small and medium-sized firms subcontracting to one another and sharing common services within an industrial district. Emilia-Romagna in Italy, Baden-Württemberg in West Germany, and Sakaki in Japan are among the best documented examples of such modern industrial districts.

If the UK is to match the performance of its competitors, it needs more than a new management philosophy or enterprise culture

The new industrial districts are diverse both in organisation and product groups. Sakaki is an overgrown mountain village of some 300 small-scale production units which use numerically-controlled machine tools to manufacture a variety of specialist equipment for international markets; one local firm controlled 60 per cent of the global market in blood pressure testing machines; another had 20 per cent of the world market for manual typewriter keyboards and 35 per cent of the US market for electric models.

Emilia-Romagna and Baden-Württemberg are larger regions comprising a number of distinct sub-districts each specialising in a different product, ranging from textiles, garments, ceramic tiles and furniture, to motor cycles, auto parts, machine tools and automatic packaging equipment.

The institutional framework of these districts is equally diverse. But each of these regions has developed procedures for balancing competition with co-operation between firms.

Firms do compete strongly but they also share work and information, building on-going relationships with one another through regional and municipal forums and public services.

In other cases, the strategy of flexible specialisation is pursued by large, multinational corporations decentralised into looser federations of operating units in search of more specialised products and more flexible production methods.

But either way, as Charles Sabel*, a professor at the Massachusetts Institute of Technology, argues, flexible specialisation requires companies to co-operate with their workforce and suppliers in order to meet the demands of shifting markets through constant innovation in products and production processes.

UK industry has not generally followed either of these routes to flexible specialisation. Britain used to have industrial districts, but these have largely been broken up by mergers, takeovers and de-industrialisation.

Small firms are generally isolated from one another while, as is the case in the West Midlands*, for instance, large firms rarely develop co-operative relations with their dependent suppliers.

Where large UK firms have invested in flexible automation equipment*, they have not exploited its potential for product diversification because of their narrow pre-occupation with short-term cost savings and hierarchical control of labour.

Flexible specialisation depends on the skills and initiative of the workforce, but British training practices, unlike those in West Germany*, have systematically failed to produce an adequate supply of broadly educated workers, while British managers insist on narrowly defined work roles which allow little scope for autonomy.

The upshot for industrial policy is that matching competitors' levels of investment in manufacturing is not the only issue. Strategies to promote flexible specialisation are also necessary but they are not amenable to a quick-fix solution at the level of the individual company.

Flexible specialisation in successful economies elsewhere is embedded in a wider network of social institutions and collective services for industry.

Industrial regions cannot be recreated quickly, especially in Britain where inter-company relationships are developed weakly and local authorities lack the funds or the autonomy to build up co-operative institutions where public bodies and private concerns can work together.

Without a radical shift in training practices by companies and government, change in working practices will be stifled by shortages of suitably skilled labour. These shortages are already visible in many sectors of the British economy, and the widespread adoption of flexible specialisation would make them even worse.

If the UK is to match the performance of its competitors, it needs more than a new management philosophy or enterprise culture; it also needs to recognise and recreate the social and institutional environments that contribute to industrial success elsewhere in the world.

Paul Hirst is Professor of Social Theory and Jonathan Zeitlin is Lecturer in History at Birkbeck College, University of London. Dr Zeitlin has acted as a consultant for the GLC and the UN. They are the joint editors of Reversing Industrial Decline? published by Berg, Oxford, on December 5 1988. Charles Sabel, Edward Lorenz, Adrian Campbell, Wendy Currie and Malcolm Warner are all contributors to Reversing Industrial Decline?

INSIDE EDGE

If you can stand the heat, go into the kitchen

Alex Sutherland tells Christopher Lorenz why he enjoys the challenge of running Electrolux's UK cooker division

It was on a hectic Sunday evening at home that Alex Sutherland received a phone call offering him a daunting new job: general manager of the loss-making electric cooker business which Britain's Thorn-EMI had sold that weekend to Electrolux, the Swedish appliances multinational, along with the rest of its appliance interests.

Barely 36 hours later Sutherland, together with several managers newly-appointed to the other parts of Thorn's former empire, plunged into a tense meeting in London with Electrolux's international top management.

Having worked at Thorn Domestic Appliances' headquarters as director of engineering for 10 months, after a series of engineering management jobs at Black & Decker, Hoover and elsewhere, Sutherland was all too aware that urgent action was needed to put the cooker business back on its feet.

But his first reaction to the set of objectives which he was given at the meeting was: "We can't achieve *that* much!

"They involved a halving of this, a trebling of that," he recalls. Fault rates were to be halved in two years, stock turns to be more than trebled in 18 months, and so on. "Half a dozen targets were handed out on one day," says Sutherland. "I hadn't come across that sort of management style before. They didn't waste any time, did they?

"I told the Electrolux people it was an impossible task," he continues, "but they said 'we know it's feasible because we've done it elsewhere'."

And so it has proved. Now eighteen months later Sutherland and his team are achieving their targets ahead of time.

Having discovered that the cooker company's losses were at least four times as heavy as had been thought, Sutherland nevertheless brought the business back into the black within seven months, and for 1988 as a whole it should make double its budgeted profit.

Electrolux recently demonstrated its faith in his achievement by committing £25m worth of capital investment to the cooker factory, 280 miles north of London at Spennymoor, County Durham.

As a result of his efforts Sutherland has not only survived the change of ownership – one of only three former Thorn senior managers to do so - but he has just been promoted to the status of divisional director.

A burly, forthright Scotsman of 48, Sutherland attributes his personal success partly to the very challenge of being switched to such a demanding new job.

After overcoming his initial doubts about whether the Electrolux objectives were achievable, he quickly took a leaf out of the Swedes' book and started setting equally stretching targets himself.

The task forces he set up to develop a major new product line were told, among other things, to cut material costs by a fifth, and use half the number of components. Product design and development times have been slashed as well; the new cookers are now being designed in 18 months, instead of the previous two to three years.

This all-round transformation of the £50m cooker business has been far from easy, both for Sutherland and his staff, in personal as well as professional terms.

In addition to the 200 job cuts which he had to make to the 1,000 labour force he inherited, he has felt the need to replace quite a number of managers whom he considered inadequate to the tough new tasks which he and Electrolux were laying down; all but one of the new appointees were outsiders.

And when he decided to bring his design engineering department up north from the London area in order to link it closely with his production experts – a key step in streamlining the product development process – not one of the 40 engineers he needed would move. It took several months to recruit a new team from all over the country.

These gaps took their toll. "At the beginning, when I was trying to steer the ship in the right direction, I didn't have a rudder, either because people had been over-promoted or because I didn't have the people," says Sutherland. "So I had to do a lot of the work on my own. I was working until after midnight for three or four months – if I wasn't as energetic as I am, I'd never have made it."

Once that particular stress began to ease, he and his wife, having come up north to join him in the hotel where he was living, began to have time to hunt for a house in the area. But that took another eight months of living out of a suitcase. Further strain was caused by the length of time it took his wife, who had thrown up a plum job in London, to find suitable employment; apart from its economic problems, Britain's north-east is not noted for its liberated attitude towards professional women.

"None of that helped back at work," says Sutherland. On the other hand he was very gratified both by his employees' response to his installation of tighter new systems and procedures, and to his moves to introduce a more open style of management at the factory. "They're a very good workforce who will move mountains if they believe in you," he says.

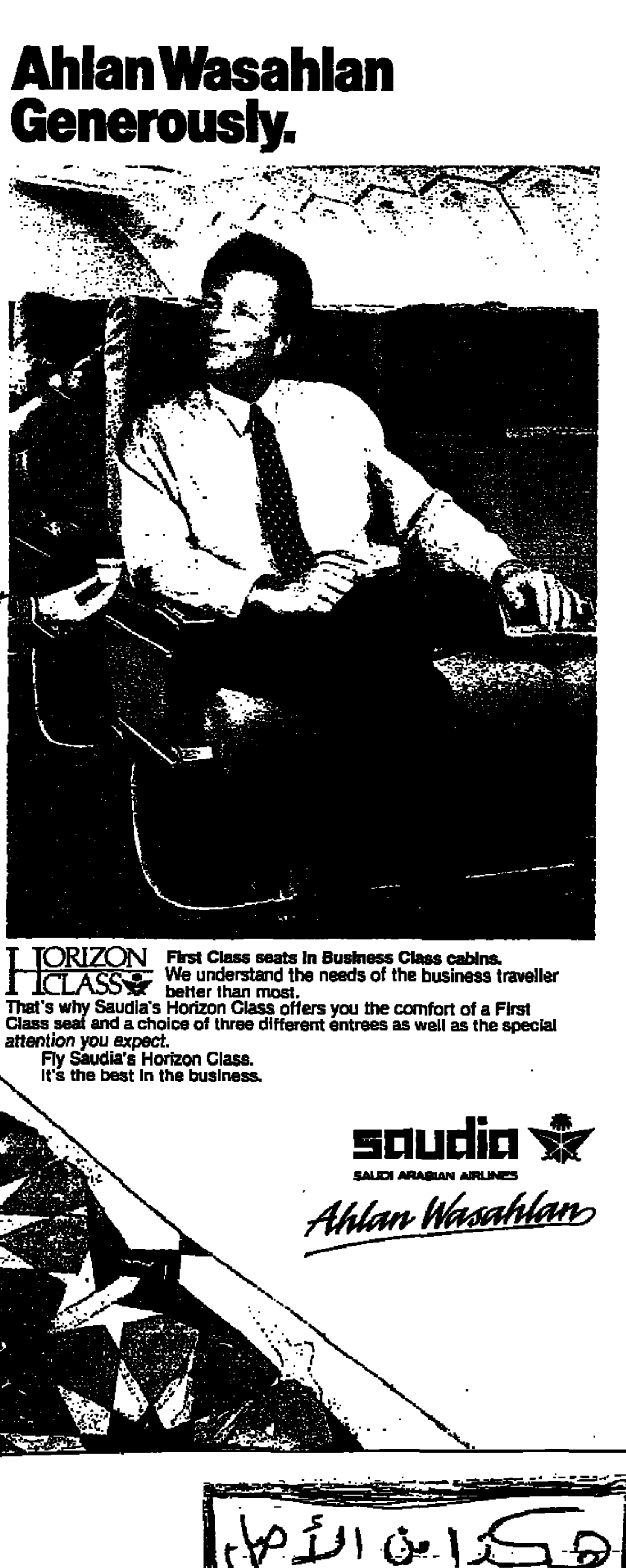
In addition to setting up all sorts of multi-disciplinary teams to deal with particular projects, and his insistence on much greater competence at every level, Sutherland considers that one of his most important innovations has been a two-way team briefing system under which employees are allowed to raise any questions they like, and the briefers have to reply within 24 hours.

He borrowed this approach from Black & Decker, where he saw how well it worked. "I'm trying to do everything I can to encourage ideas to come forward," he says.

Sutherland's own natural readiness to go into detail with his employees has been reinforced by the way his Electrolux superiors deal with him. The Swedish company's strong technical culture gives it a major advantage over British companies, he feels.

"Thorn's senior management never went into the same sort of technical detail – they were more interested in financial performance than in doubling quality, or whatever," he says. He finds the Swedish approach more demanding financially, yet more supportive on all sorts of other issues.

Recalling his frustration with the short-sightedness of several of his previous employers, including Hoover as well as Thorn-EMI, Sutherland says: "I'm very happy that the Electrolux people are engineers who take a long-term view where it's justified – and that they're prepared to invest."



FT LAW REPORTS

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The Court of Appeal (Lord Justice O'Connor, Lord Justice Bingham and Lord Justice Stuart-Smith):
November 30 1988

PRIOR PAYMENT by a shipowning company on its liability for cargo damage is a condition precedent to its right under a "pay to be paid" clause to indemnity from its protection and indemnity club; but where the company is wound up before payment so that its rights as against the club are statutorily transferred to the cargo-owner, the cargo-owner can recover direct from the club in that the prior payment condition transferred with the contingent right to indemnity becomes futile and ineffective. And a provision for retrospective cesser of club liability on non-payment of a release call by a member is a penalty insofar as its effect is to withhold sums due under his accrued rights to indemnity, and is therefore unenforceable.

The Court of Appeal so held when dismissing an appeal by the Newcastle Protection and Indemnity Association, from Mr Justice Staughton's decision that cargo-owners Firma C-Trade SA were entitled to direct recovery as against the club in respect of their claim for cargo damage on the Fanti. An appeal by cargo-owners Socony Mobil Oil Colne and others from Mr Justice Saville's decision that they were not entitled to direct recovery as against the West of England Shipowners Mutual Insurance Association Ltd, in respect of damage to cargo on the Padre Island, was allowed by majority, Lord Justice Bingham dissenting.

LORD JUSTICE BINGHAM said that the Fanti was entered in the Newcastle Protection club. Rule 4 of the club's rules provided that a member should be indemnified against all claims "which he shall become liable to pay and shall in fact have paid" in respect of an entered ship.

The Padre Island was entered in the West of England club. By rule 2 of its rules the club undertook to indemnify members in respect of claims which they, as owners of the entered vessel, "shall have become liable to pay and shall in fact have paid".

In both cases the claims listed in the rules included claims for cargo damage.

Each vessel performed a voyage during which damage was caused to cargo; cargo-owners sued the shipowner to judgment; an order was later made in the UK that the shipowning company be wound up; cargo-owners then began arbitration proceedings against the club seeking direct recovery under the Third Parties (Rights against Insurers) Act 1930.

In the *Fanti* arbitration the umpire found for the club. Mr Justice Staughton disagreed with him. The club now appealed. In the *Padre Island* arbitration the arbitrator also found for the club. Mr Justice Saville upheld his decision. Cargo-owners now appealed.

Rules 4 and 2 of the respective clubs were accepted as having the same effect.

That effect was to make prior payment by the members a condition precedent of their right to be indemnified.

Section 1 of the 1930 Act provided that in the event of an insured being wound up, its rights against the insurer in respect of liability incurred before or after winding up "shall . . . be transferred to and vest in the third party to whom the liability was so incurred".

Liability had been established by judgment against each shipowner when it was wound up. Therefore, *prima facie* their rights against the clubs at that time were rights of indemnity against sums which they should have paid for cargo damage. Since neither shipowner had paid, the rights were contingent and would only grow into effective rights of immediate indemnity on payment. It was those contingent rights which were transferred pursuant to the Act. So far the judges were at one, and his Lordship agreed with them.

At the next stage the judges took diametrically opposed views. Mr Justice Staughton said that among the rights was the term that the members must have paid the claim before they had a remedy against the club, and that after the transfer that became a term that the claimants must have paid themselves.

He said such a term made no sense. In the ordinary or legal meaning of payment, a person could not pay himself – "once the winding up order had been made there ceased to be any requirement that the claim should be paid before the association could be liable".

Mr Justice Saville regarded the condition as one which still had to be performed by the shipowner – to treat "and shall have in fact been paid" as referring to payment by the transferee would create a new right in the transferee, because the shipowner never had such a right to transfer.

Mr Justice Staughton's solution was correct. Under the rules it was the club member who was subject to the burden of making payment and entitled to the benefit of enjoying the right to be indemnified. On the statutory transfer taking effect, it was more natural to treat both burden and benefit as being transferred to the third party so that both still attached to the same party. But the condition of prior payment was impossible to perform once the statutory transfer had taken place, and so must be denied effect.

Cargo-owners also argued that the "pay to be paid" clause was rendered ineffective by section 1(3) of the Act, which provided that insofar as the contract of insurance purported to alter the parties' rights on winding-up, "the contract shall be of no effect".

The condition of prior payment did not alter the parties' rights on a winding-up. Members' rights before winding-up were to be indemnified after paying the third party. Their rights after winding-up were the same. The argument was rejected.

The Newcastle Club's appeal in the *Fanti* must be dismissed.

On the *Padre Island* appeal the club argued further that the cargo-owners had no claim to indemnity by virtue of the 1930 Act, because the shipowners' rights had altogether ceased under club rules well before the winding-up of the member.

The Padre Island was sold on November 22 1966, and cover ceased as from February 20 1967. On March 23 1967 a release call was made on the shipowners. They failed to pay.

Under the rules if a vessel was sold future cover ceased, but cover for past incidents while the ship had been duly entered *prima facie* continued. However, rule 22 provided that even after cover ceased a member might become liable to pay further calls in respect of the period during which his vessel had been entered. Rule 21 provided that on failure to pay such a call cover ceased in respect of all ships "entered" by the member, even in respect of past occurrences.

The cargo-owners contended that the rule 21 provision was a penalty, and so void and unenforceable.

The provision was not intrinsically harsh. Nor was it a penalty clause. It was not unreasonable that a member should lose his cover in respect of a period for which he failed to pay the premium. One could understand the unwillingness of other members to finance the defence of a former member who would not pay his dues. The club's appeal on retrospective cesser should succeed.

LORD JUSTICE STUART-SMITH agreeing with Lord Justice Bingham on the *Fanti* decision but not on the retrospective cesser point in the *Padre Island*, said that the provision depriving members of accrued rights to indemnity on failure to pay calls was harsh and should be construed in favour of the member if such construction could reasonably be given.

In *Gilbert Ash [1974] AC 689* the House of Lords referred to a clause entitling a contractor to withhold payment of monies due to a subcontractor on non-compliance with conditions as a penalty clause and unenforceable.

There was no distinction between withholding a sum of money due to a person, and requiring him to pay a sum of money. *Gilbert Ash* was undistinguishable. The provision was unenforceable as a penalty.

LORD JUSTICE O'CONNOR agreeing with both judges on the *Fanti* and agreeing with Lord Justice Stuart-Smith on the retrospective cesser point in the *Padre Island*, said that before March 23 1967 when the release call was made, Padre Island had ceased to be an entered vessel. Once a ship ceased to be an entered vessel there was nothing on which clause 21 could bite.

The retrospective cesser contention failed on the true construction of the rules. Had it been necessary his Lordship would have held that the provision was a penalty.

The *Fanti* appeal was dismissed, and the *Padre Island* appeal was allowed.

For the West of England Club: Stewart Boyd QC and Graham Dunning (Holman Fenwick & Willan)

For the Newcastle Club: Richard Aikens QC and Jonathan Hirst (Ince & Co)

For the Fanti cargo-owners: Anthony Clarke QC and Nicholas Hamblen (Clyde & Co)

For the Padre Island cargo-owners: Bernard Rix QC and Andrew Popplewell (Allen & Overy)

Rachel Davies
Barrister

TELEVISION

American cultural imperialism: no bad thing

As the rockets nuzzle up to their gantries, and the scientists in their dust-free labs adjust the transponders on the satellites which will soon be sent up to beam back umpteen new television channels to us, a series of terrified whispers can be heard hissing across Europe, from one public broadcasting stronghold to another. "Look out!" they say, "the Yankee Visigoths are coming!" and "Help! Help! Save us from American cultural imperialism!"

The worry is that just as Seven Up and My Little Pony have replaced real lemonade and the home-made rag doll in Britain; just as McDonald's Hamburgers are opening faster than the old Paris brasseries are closing; and just as American films have come to dominate European cinemas, so American television programmes will take over once the satellites go up.

There are a number of points worth making in response to this terrified twittering. For instance:

■ It would carry more conviction if the public broadcasters were less keen themselves on using American series to grab ratings. British channels have habitually used between 25 and 35 per cent of American programmes to hook the audience in peak hours.

■ European broadcasters have the huge advantage that they make programmes in their native languages. However popular *Dallas* and *Golden Girls* may be, dubbed or sub-titled programmes are at a disadvantage.

■ The most reliable predictions suggest that in Britain it will take many years for the new technologies to attract more than 25 per cent of the audience, leaving the lion's share to the existing broadcasters until well into the next millennium.

■ The switch to American programmes will only happen if they are what the public choose, and if we prefer American offerings why should we be denied them?

Above and beyond these practical matters, however, there is a more fundamental question: are American programmes really as bad as so many supercilious European (including British) broadcasters maintain? My own experience, during 20 years of paid viewing, is that – as in so many areas of life from roads to food – America provides some of the best available anywhere in the world, and some of the worst. But most of the really atrocious US programmes remain within the North American continent, and what comes our way tends to be remarkably good.

There are two powerful reasons for American series being so successful internationally. First, American producers budget to cover their costs within the US market and can consequently sell at rock-bottom prices internationally. Secondly, thanks to its immigration policies, the US has a population with a mixture of Anglo Saxons, Scandinavians, Asians and so on that provides American broadcasters with a domestic audience which is, to all intents and purposes, international. Please the American audience and you can virtually guarantee you will please the world.

Still, none of that pacifies the frightened broadcasters of Europe who say "That's all very well, but American programmes are still ghastly, and if we're not careful *Dallas* and *Dynasty* and the bland Coca Cola culture that goes with them will swamp all the highly flavoured little individual cultures of Europe, and our children will grow up not knowing what it means to be Austrian or Welsh or Belgian."

Concluding that the attraction of the American series is their expensive production values (film locations instead of studios, big casts, famous faces, good costumes, lots of cars and helicopters) the Europeans then set out to pre-empt the invasion by producing Eurotelly: series made with precisely similar production values, but using European stars, European bars, and European cars.

It sounds like surrender rather than defeat, and the results – *Chateauvallon* or *Black Forest Clinic*, for instance – have mostly been dire. They have been more popular in continental Europe than in Britain (the British are more resistant to dubbing and sub-titling than any other major audience) but to anybody anywhere with half an eye these co-produced Europuddings must surely look like sub-standard American programmes merely made in other languages.

The producers would presumably assert that *Eurocops* – their title, not mine – now running on Channel 4 is better, and this series of six police dramas from six European countries does indeed have some of the qualities of *Z Cars*. But would anybody go so far as to argue that they represent or defend or in any way exemplify the cultural values of the various countries where they are produced?

Hill Street Blues: head and torso above other police series

True, one has been set against the background of the Basle carnival, and another has featured a lot of Viennese trams. Is this really a good reason for preferring them to *Kojak*? They do all seem at least as much concerned with the social backgrounds of their detectives as with the work of the police, but this has told us precious little about the various cultures involved. The alcoholic wife in England, the divorced wife in Switzerland, and the new girl friend in Austria are all interchangeable.

If the social background is your concern, then the BBC's *Rockcliffe's Folly* is doing a better job. There was a moment at the end of a recent episode when Rockcliffe had been reunited with his punk-ish daughter, weaved his car up the road in a moment of tiredness and anger, climbed out below the Cerne Abbas giant and, in a spirit of disillusionment and self disgust, bellowed (at the ghosts of the chalk cutters, one assumes) "Criminal trespass! We'd have had 'em nicked!"

It is a fact, of course, that even without any deliberate effort on the part of the producers, a television police series will, to some extent, reflect the cultural background against which it is made, willy nilly: the American attitude towards guns is pretty plain from *Kojak* for example. That said, a visiting Martian who watched last week's *Kojak* and then *Eurocops* and Britain's own ITV police series *The Bill* would have had some trouble spotting the difference. There were more guns in the European and British programmes than in the American.

But even if police series produced on the eastern side of the Atlantic were packed with black berets and Gauloises, bowlers and brollies, lederhosen and alpenhorns, and of course all the more subtle abstract cultural values, that is no guarantee that the viewers would watch them in preference to – say – *Hill Street Blues*.

Given the same transmission time on the same channel as *Eurocops* or *The Bill* I have little doubt that *HSB* would attract bigger audiences, and quite right too; *HSB* stands head, shoulders and torso above any police series currently produced anywhere in Britain or Europe.

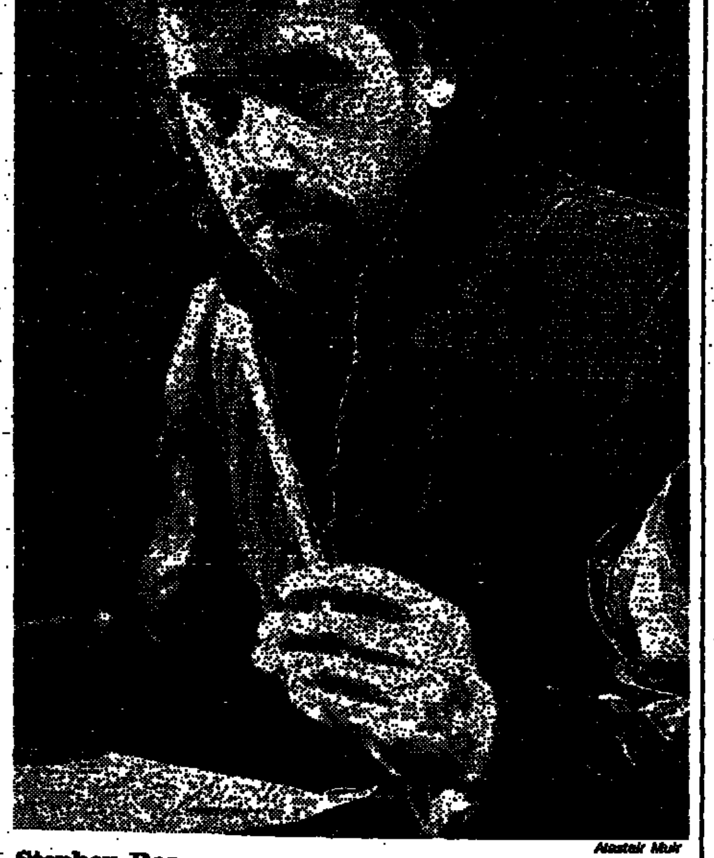
The writing is tight, witty, and employs a complexity of interwoven plots which neither *Rockcliffe* nor *Eurocops* ever attempts. Even *The Bill*, which has tried, gets nowhere near it. The depth of acting talent in *HSB's* large cast is astonishing, and the filming, when it occasionally wants to, achieves the sort of excitement which has only ever been managed in Britain by *The Sweeney*.

A recent *HSB* episode opened with a pre-credit sequence in which a drug-running aeroplane crashed, a thief stole the drugs, and a potential fence attempted to "turn" one of the Hill Street detectives in an uninterrupted monologue lasting 2 minutes 33 seconds and consisting entirely of modern New York slang which would have made Damon Runyon burble with joy. (So much for the myth about American television working to an attention span of 3.7 seconds). Then the doors went up, the headlights came on, a voice on the RT said "Armed robbery, corner of People's Drive and 44th Street," the patrol cars poured out of the garages, the sirens came on, that splendid piano sig-tune hit you between the eyes . . . and the opening credits rolled.

HSB is stylish, pacy, and deeply enmeshed in the moral conundrums of its age: racism, drug addiction, feminism, violence, Reaganomics. These may sound like American subjects, but increasingly they affect the whole world, and even without television such cultural considerations would be moving onto a global stage.

On the day that the British and continental Europeans can make programmes as good as *Hill Street Blues* they may be in a position to talk about holding back American cultural imperialism. Until that day we must expect British and European viewers to go on opting frequently for American programmes when given the choice.

Christopher Dunkley



Stephen Rea

Alastair Muir

Making History

COTTESLOE THEATRE

Shakespeare died in 1616. So did Hugh O'Neill, the Earl of Tyrone, who fled Ireland for Europe in 1607, six years after the Battle of Kinsale and a humiliating defeat by the English army.

The "flight of the earls" was listed in the patriotic annals as a last dramatic gesture in Ireland's dogged fight for freedom. Brian Friel's taut and compelling new play for the touring Field Day Theatre Company, directed with minimum fuss by Simon Curtis, suggests it was anything but a heroic exodus.

After the battle, we see Stephen Rea's raggedy O'Neill cravenly reciting his plea to Elizabeth for clemency and a return to his former life under English laws. He had lived at the Tudor court for nine years and succeeded to the 600 year-old O'Neill hegemony in 1566, just as the Protestant New English were fencing off their strongholds among the Gaelic tribes and hovels.

This culture clash is reflected in the sharp contrast between English husbandry and Irish pastoral farming; O'Neill is a returned transplant with a tortured Anglo-Irish accent who is first seen binding up clumps of Spanish broom and mistakenly putting them in water, thus prefiguring a disastrous Holy Alliance.

O'Neill's third wife, Mabel Bagenal (Clare Holman), is announced just as Trinity College in Dublin is established in 1591. The bombshell for the loyal secretary Harry Hoveden (Niall O'Brien) and Peter Lombard, the Bishop of Armagh and O'Neill's first biographer, is that Mabel is the daughter of the retired Queen's Marshall in Ireland.

Mabel actually died in 1591, but Friel keeps her alive in his story for a further ten years, mindful that "an historical text is a kind of literary artifact." Their relationship in the play, tough and argumentative, embodies a hope for their country that dies with O'Neill's capitulation and flight.

Much is made, though perhaps not enough, of O'Neill's visionary Europeanism that may well have elevated him above the local struggles. Instead, we see him drunk, bitter and broken in Rome in his final years, while the bishop, played with truculent suavity by Niall Tolbin, embarks on a nationalist hagiography, impervious to O'Neill's request "to make Mabel central."

This is Friel's most accomplished and important play since *Translations* with which Field Day started up in 1980. It has the same suppleness of argument and beauty of writing in its presentation of O'Neill and his tragic dilemma.

O'Neill was renowned for masterly inactivity. But the long-awaited arrival of Spanish forces and an unstoppable upsurge among the chieftains propel him into the fateful battle. He seizes the moment, but Mabel calmly itemises the other interests of Rome, of sectarian hotheads, of politicians. There can be no victory, because there is no shared will.

His attachment to the land is forcefully projected in the character of his son-in-law, the Earl of Tyrconnell, Red Hugh O'Donnell, whom Peter Gowen touchingly animates with front line reports among the clans of Fermanagh, Donegal, Antrim and Dungiven. The larger, fateful colonial chasm is beautifully conveyed in a fine scene between Mabel and her sister (Emma Dewhurst), a Staffordshire import aghast at doomed and savage people "steeped in superstition."

The seeds of national tragedy are sown unwittingly by people living their history but also knowingly, and damagingly, by people who write it down. The anguish and pain in Stephen Rea's superbly organised and moving performance is as much to do with that realisation as with the acknowledgement of his own pitiful and unrecorded shortcomings.

Michael Coveney

Tweedledum & Tweedledee

HANDEL AND BONONCINI IN BALTIMORE

The Maryland Handel Festival and the big meeting of the American Musicological Society, held this year in Baltimore, coincided. Bononcini's *Camilla* and Handel's *Samson* were performed. We could discover whether (as John Bryom's 1725 jingle put it), compar'd to Bononcini, Mynheer Handel's but a ninny, or whether the Italian to Handel is scarcely fit to hold a candle: "Strange all this Difference should be 'Twixt Tweedledum and Tweedledee!"

Not that it was a fair comparison. *Camilla* is not one of the operas Bononcini wrote in London while he and Handel were rival composers for the Royal Academy. It's an early piece – Hawkins calls it "but a puerile essay" – which appeared in Naples in 1696 and reached London ten years later (the first Italian opera to do so), in English translation. It was very successful: revivals continued until 1728; it was adopted as an "English opera," something that people with no taste for Italian exoticism could enjoy.

Handel's friend Mrs Delany, in 1726, "liked it for old acquaintance sake, but there is not many of the songs better then [sic] ballads." It's not unlike a *Beggar's Opera* with recitatives, and a company of Virgilian princes and princesses, not highwaymen and harlots.

It was interesting to see the little piece, to discover what was happening between opera's first fine 17th-century freedoms and the aria-bound richness of Handel's day. Piero Weiss and his students at the Peabody Institute had reconstructed the London version. It was not well performed, however. The words of the student cast were largely inaudible; no libretto or synopsis was provided; many people left at the interval.

Samson – drafted in 1741; immediately after *Messiah*; completed in 1743; and first performed at Covent Garden, in 1743 – marks Handel's abandonment of opera; henceforth he presented only oratorios. *Samson* does not have the majesty of *Saul*, but it is a noble, inspired composition.

The Baltimore performance, given in the now-secularised church outside which Edgar Allan Poe lies buried, was an unsettled affair. Two days later, in the Memorial Chapel of the University of Maryland – the regular festival site – *Samson* was stirringly performed. Except by the Samson: he was the Swiss tenor Silvan Müller, a cultivated and lyrical singer but one without the defiant flash, the forceful lower register, and the command of forceful English declamation which a Samson needs.

Lorraine Hunt was glorious in the three airs Handel provided for Maria Avoglio: "Ye men of Gaza," "With plaintive notes" (filched from Dalila), and "Let the bright Seraphims." Gillian Fisher was an alluring Dalila and William Sharp an affecting Manoah.

The core of the festival is the famous University of Maryland Chorus. Conducted by Paul Traver, an adept Handelian. Its singing was splendid. As the couplet "To Man God's universal Law/Gave Pow'r to keep the Wife in Awe" rang out, every word fervent and distinct, two ladies made an indignant, ostentatious exit. (At the AMS meeting, three sessions were devoted to "Feminine Scholarship and the Field of Musicology," while other papers considered Francesca Caccini, Clara Schumann, Fanny Hensel and Louise Bertin.)

The festival presents, in chronological sequence, Handel's oratorios in texts as close as we can come to those of the first performances. This may have been the first "full" *Samson* since 1743; Handel himself began cutting the long score during the initial run. For general use, some cuts may well be countenanced. But this was an elevating *Samson*.

Andrew Porter

The Woman in White

GREENWICH THEATRE

The great Victorian novels are a minefield for the over ambitious adaptor. The languorous prose; the convoluted plots; the slow development of character, present almost insuperable obstacles. Melissa Murray has fallen at the first fence in her conversion of Wilkie Collins masterpiece to the stage.

The attraction of the original is that you are never quite certain who anyone is, from the mysterious Woman in White, who materialises out of the mist at midnight at what must now be Swiss Cottage to get the novel off to such a shivery start, to the subtle Count Fosco, the most charming villain in fiction.

At Greenwich short sharp scenes follow each other with the heavy thump of a punch bag. In the novel, when the hero Walter Hartright first sees Laura Fairlie he is stunned by her likeness to the Woman in White; here, a dramatic moment if ever there was one, is skimmed over like burnt milk. The characters are too busy telling each other the plot for any relationships to develop naturally, so the obsession of the Count with Marian Halcombe seems like a frivolous whim. And if your eyelids flicker for a moment a piece of the giant jigsaw is lost for ever

But if the play is a boneless, tasteless, fillet there is a meaty role – two meaty roles – for

Alastair Muir

Helena Bonham-Carter

one of our most compelling young actresses, Helena Bonham-Carter. This is her stage debut and she does not allow the new medium to affect an acting style which seems based on moody truculence. Since Laura Fairlie is famous for her sweet temper and innocence this is acting against type with a vengeance. Anne Catherick, the Woman in White, comes across, thanks to Ms Bonham-Carter, as a petulant loony, best avoided at the crossroads, rather than the nervous childish creature created by Wilkie Collins.

Ms Bonham-Carter hardly delivers a phrase true to the original but she is certainly compulsive viewing. She is poorly served by Gerard Logan who is a wimpish Hartright, but Jane Gurnett as her half sister Marian Halcombe is amazingly in tune with Collins ideal with her waspish, masculine briskness, and, for all I know, a genuine Cumberland accent. Director Sue Dunderdale pushes the relationship between the sisters to the brink of the salacious and sometimes seems to want to make a feminist tract out of what should be a thumping good melodrama.

The pace is too pedestrian to permit many thrills and when a theatrical coup is attempted, such as the conflagration of the dastardly bart, Sir Percival, in the church vestry, it has all the impact of a glow worm. With eight many-parted actors charging around ten ill defined scenes this is a badly under cast, and under produced, adaptation. Michael Byrne achieves some stature as Fosco but Wilkie Collins, a great lover of theatricals, would have found this small beer – apart from Ms Bonham-Carter whose air of disdain, perhaps about the vehicle she is trundling, would have caught his dramatic fancy.

Antony Thorncroft

ARTS GUIDE

December 2-8

THEATRE

London

A Walk in the Woods (Comedy). Alec Guinness and Edward Herrmann in feeble off-duty arms negotiation encounter by Lee Blessing. Guinness, back on the London stage after 10 years, is in subtle virtuoso form as the Soviet veteran of tactical stone-walling and no-dealing tricks (930 3578, cc 839 1438).

Measure For Measure (Barbican). Pick of the RSC London repertoire, a gripping revival by Nicholas Hytner, strongly acted, with witty design references to Lloyds of London and the Pompidou Centre in Paris (638 8891).

The Secret Rapture (Lyttelton). Brilliant new David Hare piece for the National Theatre, a satirical but moving romance on life, love and family politics in Thatcher's Britain. The play of the year (928 2252, cc 240 7200).

Easy Virtue (Garrick). Transfer of King's Head revival of early Noel Coward, same period but lesser vintage than Hay Fever, but worth seeing (379 6107).

South Pacific (Prince of Wales). Average, traditional revival of the great Rodgers and Hammerstein musical, with Gemma Craven failing to wash the baritonal Emile Belcourt out of her hair (839 5989).

Follies (Shaftesbury). Eartha Kitt and Millicent Martin now decorate Mike Ockrent's strong revival of Sondheim's 1971 musical, in which poisoned marriages nearly undermine an old burlesque reunion in a doomed theatre (379 5399).

The Admirable Crichton (Haymarket). Rex Harrison and Edward Fox in enjoyable revival of Barrie's imperishable comedy of class barriers and reversals on a desert island (930 9832, cc 379 4444).

Dry Rot (Lyric). Brian Rix returns to the stage after an absence of 12 years in a 1950s farce that prefigures the capture of old England by the spivs and opportunists. A genuine classic (437 3686).

Bartholomew Fair (Olivier). Successful Victorian transposition of Ben Jonson's sweaty masterpiece with ferris wheel fairground setting and much zanily eccentric acting in Richard Eyre's National Theatre company. (928 2252). Dec 3-10.

The Shaughraun (Olivier). Recommended Christmas treat, as Boucicault's melodrama is given the full scenic works but is also revealed as a key Irish dramatic milestone. Fine National Theatre cast led by Stephen Rea. (928 2252). Dec 17-23, Jan 5-10, 19-21.

Brigadoon (Victoria Palace). 1947 Lerner and Loewe "heather-scented" Scottish fairytale hit is handsomely revived and well sung, less frail than expected. (834 1317, cc 836 2428).

Sugar Babies (Savoy). Mickey Rooney and Ann Miller repeat Broadway roles and exhibit stamina and star quality in a mixed bag of burlesque sketches (836 8888).

Amsterdam

The Footsbarn Theatre with Babylon (Thur). Stadsschouwburg (24 23 11).

Eindhoven

The Footsbarn Theatre with Babylon, based on Bulgakov's Master and Margarita (Thur). Stadsschouwburg (11 11 22).

New York

Rumours (Broadhurst). Neil Simon's latest comedy is a self-conscious farce, with numerous slamming doors and lots of mugging but hollow humour that misses as often as it hits.

Cats (Winter Garden). Still a sell-out, Trevor Nunn's production of T.S. Eliot's children's poetry set to music is visually startling and choreographically feline (239 6262).

A Chorus Line (Shubert). The longest-running musical in the US has not only supported Joseph Papp's Public Theater for eight years but also updated the musical genre with its backstage story in which the songs are used as auditions rather than emotions (239 6200).

Les Misérables (Broadway). The magnificent spectacle of Victor Hugo's majestic sweep of history and pathos brings to Broadway lessons in pageantry and drama (239 6200).

Starlight Express (Gershwin). Those who saw the original at the Victoria in London will barely recognise its US incarnation: the skaters do not have to go round the whole theatre but do get good exercise on the spruced-up stage with American scenery to distract from the hackneyed pop music and trumped-up, silly plot (586 6510).

Me and My Girl (Marquis). Even if the plot turns on ironic mimicry of Pygmalion, this is no classic, with forgettable songs and dated leadenness in a stage full of characters. (947 0033).

M. Butterfly (Eugene O'Neill). The surprise Tony winner for 1988 is a somewhat pretentious and obvious meditation on the true story of the French diplomat whose long-time mistress was a male Chinese spy (246 0220).

Speed-the-Plow (Royale). David Mamet applies his biting sarcasm and ear for the exaggerations of American language to Hollywood, in this screamingly funny and well-plotted exposé of the film industry (239 6200).

Phantom of the Opera (Majestic). Stuffed with Maria Bjornson's gilded sets, Phantom rocks with Andrew Lloyd Webber's haunting melodies in this mega-transfer from London (239 6200).

Chicago

A Christmas Carol (Goodman). William J. Norris celebrates his tenth season as Ebenezer Scrooge in the annual holiday production with a cast of 26, directed by Michael Maggio. Ends Dec 28 (829 4141)

Tokyo

Kabuki this month celebrates the art of the Onnagata (female impersonator). At the National Theatre, 71 year old Living National Treasure, Nakamura Utaemon VI, plays one of his most famous roles, perhaps for the last time, in Meiboku Sendai Hagi (The Disputed Sucession). Performances at noon and (Wed, Fri) at 5pm (265 7411). Meanwhile, the 4.30pm programme at Kabuki-za (541 3131) features Osome Hisamatsu, with 35 year old Tamasaburo Bando, who is regarded by his following among young Japanese girls as a paragon of grace and femininity.

Bunraku. The puppet theatre is one of Japan's most refined art forms. Each doll has three operators who remain in sight throughout the performance while a narrator unfolds the story to a musical accompaniment. Evening performance at 5pm (plus 12 noon at weekends): Chushingura, the famous story of the 47 loyal retainers. Matinee performance at 11am and 2pm (weekdays only): Tsubosaka, a moving tale of a blind musician and his devoted wife, ending with a beautiful dance. National Theatre (265 7411).

Noh. (Wed). A double-bill of the noh play, Kiso, and a kyogen comic interlude. Japan's most esoteric art form is not to everyone's taste, but should be experienced at least once by everyone who wants to discover why Japan will never become a "western" nation. (Most other Noh theatres are open at weekends only. Check local press for details.) National Noh Theatre (423 1331).

The Tempest. Directed by the prolific and ever-inventive Yukio Ninagawa, with music by Uzaki Ryudo. This visually enthralling production was seen at this year's Edinburgh Festival and transposes the action to Sado, Japan's own island of exile and mystery. Stylistically it draws on elements from the noh theatre. Imperial Theatre (201 7777).

SALEROOM

Getty sells manuscripts

Both Sotheby's and Christie's were in fine form yesterday. Sotheby's manuscripts and miniatures and brought in £3.3m with less than 1 per cent unsold, while Christie's managed £1.65m from European sculpture and works of art and £541,000 from the morning session of Old Master drawings.

The main interest in the manuscripts was centred on eight lots for sale by the Getty Museum, California. The Museum is best known for its buying, but it was disposing of the manuscripts, which it had acquired in 1983 as part of the 144 strong Ludwig collection of manuscripts, because they were not illuminated. Apparently unilluminated manuscripts lie outside the Museum's collecting policy.

They were most rare, six of them dating from before 900 AD. Sotheby's expert Christopher de Hammel does not believe so many manuscripts from this period have appeared on the market since 1864 and it is improbable that such an opportunity will occur again. Not surprisingly the two leading dealers, the London based Quaritch and the New York based Kraus, combined to acquire the four top lots, including the oldest European book to appear at auction in over 50 years.

It was the *Canones Conciliorum*, 94 leaves from an Irish monastery in northern Italy, dating to the early 8th century; it fetched the top price of £638,000. Less than 2,000 Latin manuscripts and leaves survive from before the 9th century and most of these are fragments. Its top estimate was £500,000, and will go into stock while Quaritch and Kraus negotiate with private collectors and museums.

The works of the Venerable Bede, written down in France in the early 8th century, barely a century after the Saint's death, sold for £616,000 and the *Liber Humanorum Litterarum* by Cassiodorus, a collection of classical writings produced in the 9th century, realised £462,000. It was perhaps disappointing that the Portolan Sea Chart of Europe, North Africa and the Near East, produced in Majorca in 1469, and made by the Jewish map maker Petrus Roselli, should only sell for £165,000, but in any terms the auction was a tremendous success. All told the Getty is £2.55m richer.

Christie's produced two magnificent prices for bronzes cast from models by the famed Giambologna. A late 16th century Florentine rearing horse, 30 cm high, almost trebled its estimate at £440,000 while a group of Hercules strangling the Nemean lion fetched the same sum. Both were bought by a telephone bidder.

Antony Thorncroft

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Human rights in Britain

THE RULING by the European Court of Human Rights that terrorist suspects cannot be held for seven days without being brought before a court has presented the British Government with a dilemma. It is desirable on democratic grounds for Britain to abide by the court's pronouncements. Against that, trained IRA terrorists are believed to be able to withstand short interrogations.

As Mrs Margaret Thatcher has indicated in the House of Commons, the Government gives priority to the need to combat the IRA. That said, the dilemma remains to be resolved. Whatever solution is chosen will be judged against the background of a lengthening list of recent Government decisions each of which has given greater weight to reasons of state than to the civic rights of the individual. Most, but not all, arise from the troubles in Northern Ireland.

It would be absurd to conclude that Britain is in the grip of an authoritarian administration. It is quite obviously still an open democracy. The law protects the citizen. The Government argues that the growth in home ownership, the enhancement of economic opportunity and the decentralisation of the day-to-day administration of schools, constitute a dispersal of "power to the people."

Supreme power

Yet there remains cause for concern. Circumstances can now arise in which, for whatever good reason, the protection of the law is uncertain. Powers of telephone-tapping, surveillance, arrest and detention are strong and getting stronger. There is no written constitution. Parliament has supreme power; a Cabinet that commands the support of a large majority in the House of Commons could not be prevented from behaving like an elective dictatorship. The Government has acted to diminish opposition to its precepts in most areas of public life, from the broadcasting authorities to the institutions of local government.

The "Charter 88" campaign, launched last week, seeks to counteract this tendency by calling for a Bill of Rights, proportional representation, reform of the House of Lords, and other constitutional devices. It is asking for too much at once. Yet it has a case. Some change in Britain's constitutional arrangements is desirable, if only to prevent any further erosion of what in most of western Europe and all of north America would be regarded as inalienable rights.

The "Charter 88" route would require a constitutional convention, which would draw up a written document "anchored in the idea of universal citizenship." Attractive as this proposal may be to the centre, it is not supported by either of the two main political parties.

Built-in check

It would be more practical to aim for an attainable objective, whose purpose would be to build in some check on the actions of the "elective dictatorship." Proportional representation would not in itself necessarily achieve that. A written document establishing separate powers for the central executive, the legislature and the judiciary would. So would a document providing for the irreversible dispersal of power to regions (such as Scotland) or local authorities. But both of these must be regarded as, at best, long-term ambitions.

One immediate step open to the Government is to make a start on the codification of civil, criminal, commercial and administrative law, all of which should be made clearer and more comprehensible. Another is the incorporation of the European Convention of Human Rights into British law.

This would still leave Parliament (that is, the Cabinet) in a position to put through overriding legislation if it felt it necessary to do so, but, failing that, it would enable ordinary citizens to seek the protection of the courts in a wide variety of circumstances. Unhappily, it is just those circumstances that the Government seems to have had in mind in introducing its anti-terrorist, secrets, security services, broadcasting and other legislation. The more it proceeds along such lines, the more the charge of creeping authoritarianism will come to stick. In times past Britain was a leader in the protection of the liberty of the individual. It is now in danger of becoming a laggard.

David Goodhart examines German anxieties over the single European market

An attack of the 1992 jitters

It will probably not be long before "1992 – Nein Danke" stickers start appearing on the backs of West German cars. In recent months ordinary Germans have begun to appreciate what a barrier-free Europe might mean – and there is much they do not like.

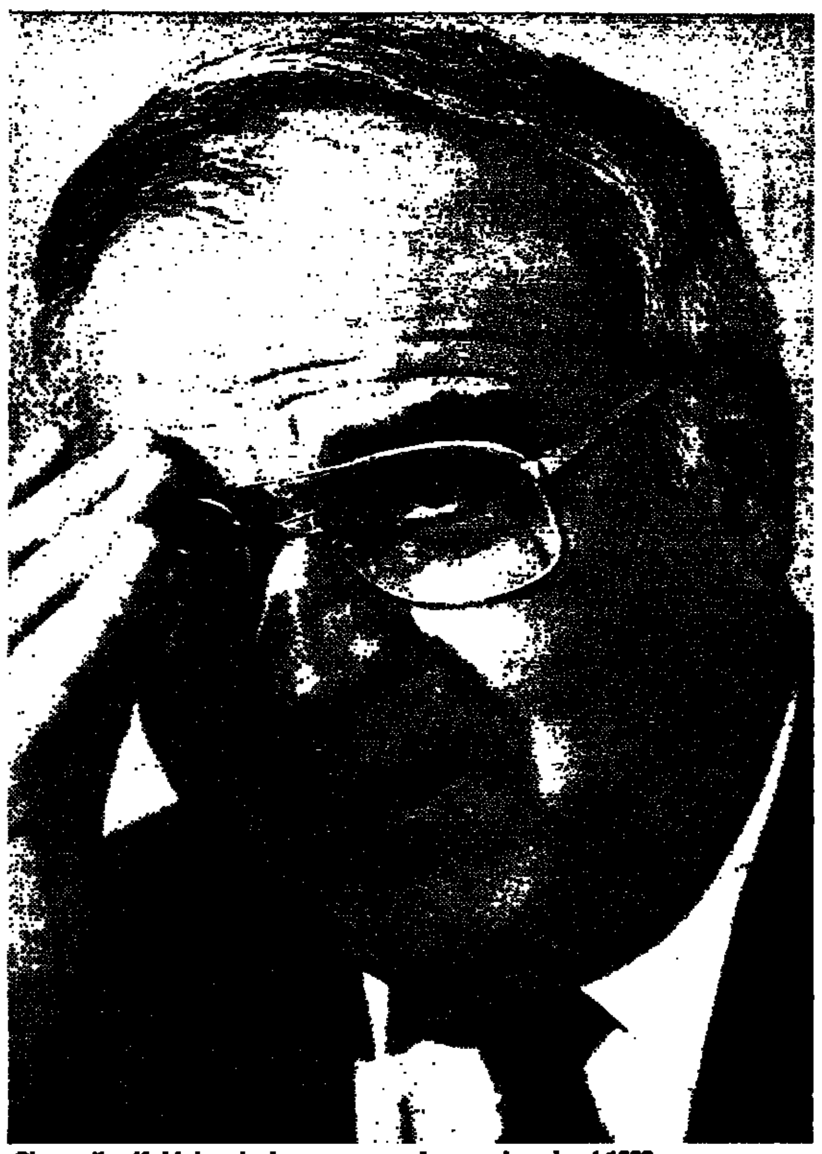
A "hormone scandal" during the summer was easily turned into a political offensive against open borders and the dangers from contaminated food, in spite of the fact that the scandal in question involved German farmers injecting potentially dangerous quantities of hormone into German calves.

Consumers in all European Community countries tend to be at their most wary where their stomachs and savings are concerned. The Germans are no different in fearing an influx of dubious insurance policies or impure food. They do, however, have some special worries about 1992, which is why Chancellor Helmut Kohl, the Chancellor, has today convened a national conference on Europe.

He is, no doubt, concerned that, despite Germany's success in the EC presidency in the first half of this year renewed enthusiasm for Europe has not spread far beyond the business and political élites. But top of the general public's anxiety list is the environment. This has less to do with a Teutonic romanticisation of nature than with Germany's wealth, population density, highly industrialised structure and position in Europe. The EC, which is already blamed for over-intensive agriculture, is now, often unfairly, associated with pressures to reduce West Germany's tough environmental protection standards.

Next comes the fear that Germany's

The EC is often unfairly associated with pressures to reduce Germany's environmental standards



Chancellor Kohl: headaches over popular worries about 1992

notoriously stringent quality standards for goods and services will be eroded as goods produced to lower standards receive freer access. Another, probably misguided, fear is that the freer movement of people and capital will attract a stampede of foreigners attracted by Germany's relatively generous welfare system while German companies – and thus jobs – decamp to the lower cost southern European economies.

A more justified anxiety is expressed by craftsmen such as electricians and plumbers who are highly qualified but expensive. They fear they will be undercut by craftsmen from other EC countries when mutual recognition of qualifications comes into force.

However, although the man and women in the street have begun to peer suspiciously at the potentially disruptive effects of 1992, German business – at least outside the services sector – has started to lick its lips at the prospect. Most big exporters are optimistic and even complacent about the open market. More than 53 per cent of German exports already go to the EC and they are confident that the advantages which accrue to the most efficient in a customs union will increase.

"German companies have been used to treating the EC as an extension of their home market and in most cases they already have their warehouses in the right place and their marketing strategies properly targeted," one consultant says.

In some ways this optimism is surprising. It is the status quo in the EC which has favoured Germany, "the Japan of Europe," strong in exporting manufactured products and weak in the hitherto protected services sector. Abolishing many of the non-tariff barriers which German exporters have become so expert in by-passing ought to undermine their comparative advantage, while a more open home market should increase import penetration.

Nevertheless the most authoritative German report yet published on 1992, from the IFO economic institute in Munich, suggests that 52 per cent of companies expect to benefit greatly from the open market and only 7 per cent think they will suffer. Costs are expected to fall initially by 2 per cent and turnover to rise by an average of 5 per cent. The implication of this and other reports is that there are no weak industrial sectors, only weak companies.

But if the big concerns in chemicals, cars, and capital goods all expect some, albeit undramatic, improvements – assuming there is no protectionist response to a "Fortress Europe" – what of the Mittelstand (small and medium companies)? It is here that the awakening has been most marked.

Although manufacturing companies in this category have a higher profile in international markets than their EC counterparts, Economics Ministry officials had been nervous about the greater 1992 propaganda in Britain or France. But in the past few months the German business brain has set to work and the chambers of commerce now pump out a stream of information on the subject.

Attention has been focused on reducing high production costs at home and re-examining the necessity of moving closer to foreign customers. (A recent Deutsche Bank seminar on 1992 directed at middle-grade companies quickly focused on specific questions like how to buy land in Spain.)

Yet although the capital export figures suggest a rise in new investment abroad, there has so far been surprisingly little 1992-related foreign takeover activity by German companies. Most of the buying has been foreign companies breaking into West Germany, encouraged by the "for sale" signs hanging over many companies thanks to an imminent change in capital gains tax.

Some believe that Europe is now on the brink of a wave of takeovers, joint ventures and cross-shareholdings, perhaps heralded by the Siemens-GEC bid for Plessey. Many of West Germany's big, cash-rich, companies are now searching hard. The danger is that they may have waited too long or like Henkel, the chemical and detergents group which has been trying to expand in Italy, may find themselves outbid by less cautious rivals.

But despite the fears of trade unionists and environmentalists that production will drift south because of Germany's high costs, there is little prospect of widespread desertion even from the loudest grumblers – the inward investors. And where companies are moving base it is often for reasons only indirectly associated with 1992.

"A Mittelstand company producing a sophisticated capital good must move closer to his customer because of the growing importance of software and servicing," says Dr Wolfgang Hager who runs a Brussels consulting firm. Like other analysts he believes that some lower-skill sectors like building materials or paper and board may export jobs to lower labour cost countries but the high-skill heartland of German industry will stay put. "Daimler-Benz say they cannot make cars in North Rhine-Westphalia let alone Spain," he says.

The luxury price bracket of a Daimler-Benz car may make Germany's expensive labour and anti-pollution requirements seem like a trivial additional expense, but that is less the case for mass-market car-makers like Volkswagen which is now producing the Polo in Spain. It is the mere fact that companies like Volkswagen can locate where costs are most favourable, without the need to be inside a given national market, that has had the greatest impact within Germany. In other words 1992 is a useful lever for employers seeking to reform the slow-moving industrial system.

"Germany needs an external shock and 1992 is it," says Mrs Karin Roegge of the BDI employers' organisation.

The threat of the greater mobility of capital is already having a clear effect on the trade unions. They remain among the strongest in Europe, but employer pressure is forcing concessions on flexible working time and even Mr Franz Steinkühler, leader of the powerful I G Metall union, now accepts that some jobs ought to move to lower cost economies. The unions will not give up the co-determination system of worker representation, but, contrary to some scare stories, they have no intention of trying to force the system on other countries. Although the Government in Bonn is more sensitive to 1992's "social dimension" than the British Government, it does not want to press German industrial relations on anyone else.

On the debit side the Government may also not want to challenge those industry lobbies – especially in the weaker services sector –, which are seeking to hold on to protected positions. Also behind the Government's public opposition to a Fortress Europe, some free-traders fear that it will make private concessions to the protectionists, despite the fact that German exporters have most to lose from retaliatory action by the US and Japan.

The liberalisation of transport, financial services and energy should benefit German companies as consumers as well as foreign companies as producers, but it may be slow in coming. The big German chemical companies, for example, are itching to use cheap French nuclear energy but the Government will not allow them to connect to the French grid while the German utilities are burdened with supporting an uneconomic local coal industry (until 1995 at least).

Financial services is a more complex area. German banks, which have been moving aggressively into southern Europe or merging with each other, do not need Bonn's help to keep out competitors. No foreign bank is going to build a retail network from scratch in such an over-banked society and hostile bids for banks remain impossible.

However in credit cards, fund management and, above all, insurance, the lack of proper competition does provide some opportunity for outsiders. The EC has already ruled that most non-life insurance should be open to foreign products and an imminent directive on life assurance ought to ease licensing procedures within Germany.

But Mr Tim Ward, of Equity and Law in Wiesbaden, says Germany will continue to be a tough market for innovative outsiders. He has just won a three-year battle to licence a unit-linked life policy, but believes it will be 10 years before the system of fixed premium rates and policy conditions is properly undermined. Changes in industrial insurance should come quicker.

Public procurement also remains a doubtful area. Although liberalisation throughout the EC should disproportionately benefit Germany because of its dominant position in capital goods, its own liberalisation may be half-hearted. That is not so much the fault

The Länder feel less commitment to free trade principles than the Federal Government

of the Federal Government, which is pushing faster than expected in opening up telecommunications procurement, but the Länder (state) governments feel less commitment to free trade principles.

In the field of EC-wide standards on traded goods Germany, as the commercially dominant standard-setter, may have some success in forcing upward harmonisation. But as "mutual recognition" of other country's standards will be the more widely applied principle, the crucial question is how real such recognition will be inside Germany.

The German food industry, for example, which is far more fragmented than the British or French, and which might be expected to suffer after 1992, will press for enforcement of old hygiene laws which are costly and time-wasting for importers.

Nevertheless, the industry has already lost battles over beer and sausages. Though in those products consumers will remain loyal to local producers, the German consumer is, in general, probably less chauvinistic than other Europeans. It remains to be seen how far the German consumer will go in trading quality for price, but if, as some believe, most German standards are not higher but just different, "Made in Germany" may not count for as much as sometimes thought.

Labour strife in Spain

A GENERAL strike in Spain called by the two main trade unions for December 14 now looks inevitable. The unions cannot back off at this stage without losing face, while the Government of Mr Felipe Gonzalez has little interest in being too conciliatory because it knows the unions are weak and will probably emerge having shot themselves in the foot.

On the surface it is a curious phenomenon that labour should be so disaffected at a time when Spain is enjoying such prosperity. Moreover, it is the first occasion where the two main unions, the Socialist UGT and the Communist-controlled CCOO, have buried their historic rivalries to make common cause in industrial action against a democratic government.

The confrontation is not a case, as in early Thatcherite Britain, of a government deliberately seeking to break the grip of an over-powerful trade union movement. The unions have small memberships and scarce funds. The formal excuse for the strike is a youth employment scheme.

No one disputes the need to tackle Spain's youth unemployment, which is the worst in Europe; but the Government and unions are at loggerheads over whether it is best tackled by a scheme that encourages low-paid temporary jobs. Beyond this lies the broader issue of a union movement trying to protect its limited influence from the erosions of the market place, and a government out to ensure that the benefits from a rapidly expanding economy are not compromised by inflationary wage demands.

Recovering losses

The Spanish economy is growing at over 4.5 per cent but inflation has risen to nearly double the Government's 3 per cent target, the projection on which public and private sector wages were agreed for the year. The unions are thus understandably concerned about recovering their losses and protecting themselves against further erosion in 1989.

However, their demands for next year are almost twice what the Government is prepared to tolerate in its policy to control inflation through wage restraint. The Government's youth employment scheme, which the unions feel is far too beneficial to employers, has merely poured oil on troubled waters.

There are some parallels with recent labour unrest in France. In both instances, notionally Socialist governments are conducting economic policies whose "social" content is limited by giving far more play to market forces. This has antagonised unions. They feel their members are benefiting least from prosperity and they see their role being reduced by administrations whose political platforms formally identify with workers rather than employers. The industrial unrest in France and Spain reflects, as much as anything, frustration over this marginalisation and the perception of political betrayal.

Open rebellion

To find in Spain the Socialists' own trade union, the UGT, in open rebellion underlines the extraordinary evolution of the party since the death of Franco. Under Mr Gonzalez's leadership, the party has been steered away from socialism towards the middle ground of social democracy and a market-oriented economy.

In this environment, the UGT has been an awkward appendage to the party. Equally, the union has never really been able to decide whether its duty was to back the Government or its own rank and file. The present conflict forces these issues into the open and raises the question of how much longer the party should call itself by its historic name, the Socialist Workers Party. It now represents the aspirations of a country that has become overwhelmingly middle class and is out of sympathy with disruptions caused by strikes.

A Rothschild steps down

■ Evelyn de Rothschild is stepping down as chairman of The Economist after 17 years in the job. He will be succeeded by Sir John Harvey-Jones, the former chairman of ICI who has been a non-executive director of the paper for the past year or so.

The Rothschild family involvement – and it is a family rather than a banking interest – goes back to 1928 when the paper was reorganised by, among others, Brendan Bracken, Lord Cowdray and Rothschild's father. Apart from the Financial Times, which owns 50 per cent of the shares and is not allowed to own any more, Evelyn is the largest single shareholder.

He says that he decided to go about six months ago, but will remain as chairman until the AGM next July when he will have been a director for 25 years. He will stay on the board and will, of course, retain his shares. "We produced some very good half year results this week," he adds cheerfully.

Age had little to do with it. Rothschild is only 57 and is making way for an older man. He decided he had been chairman long enough and wants to get on with his other activities. Aside from banking, they include chairing United Racecourses. There may be others to come.

Harvey-Jones claims that being chairman will take one day a week or perhaps two full days a month. "That," says Rothschild, "is typical Harvey-Jones understatement."

Meanwhile, there will be an EGM on December 20 when The Economist will seek to raise its borrowing limits from £15m to £25m. When the paper sought an increase in July 1986 the Financial Times opposed it. This time approval is in the bag. Part of the money will be used for the refurbishment of the Economist building in St James's and the development of the site. It is becoming a very profitable investment.

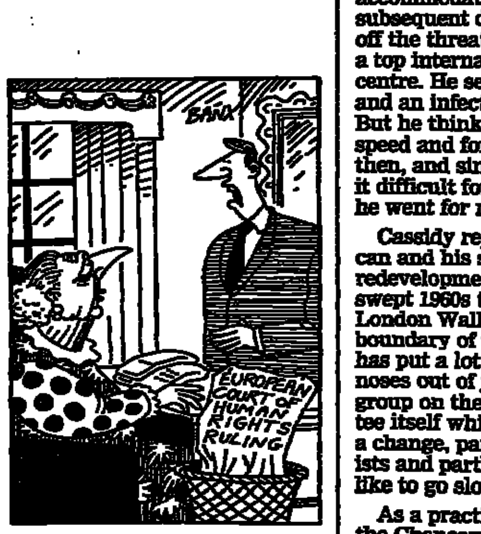
OBSERVER

Rugby money

■ About 55,000 Barbour jackets rubbed shoulders at Twickenham yesterday as possibly the biggest post-war crowd enjoyed the 107th Varsity rugby match between Oxford and Cambridge.

And rubbing shoulders on the field was one of the highest number of postgraduates: 23 compared with only seven undergraduates. They brought more muscle and bulk to the occasion, and are said to be part of a plot by certain admissions tutors to raise the status of the game.

Outside the ground, touts charged greatly inflated prices for tickets, and there were plenty of takers. Each university stands to make at least £80,000 from receipts.



"I thought we were the party of law and order, Ma'am."

Arafat's talks

■ Yassir Arafat, the peripatetic chairman of the Palestine Liberation Organisation, yesterday had one of his more unusual encounters: with a group of American Jews in Stockholm.

Arafat, on the move ever since the PLO adopted its new political programme in Algiers last month, has met American Jews many times before. The significance of yesterday's meeting lay in his chief Jewish interlocutor, Rita Hauser.

A New York lawyer – with Lebanese clients among others – Hauser has long been a key figure on the liberal wing of the powerful American Jewish community. In 1976, she helped draw up a document for Washington's Brookings Institution which eventually formed the basis for Jimmy Carter's Middle East policy. Now, she is close to Shimon Peres, Foreign Minister in the current caretaker Israeli Government.

As Peres's position has weakened in recent months, liberal US Jews like Hauser have become increasingly desperate. She draws comfort from the more flexible policies towards the region of Mikhail Gorbachev. Her meeting with Arafat yesterday, a week or so after the US administration refused him a visa to visit the UN in New York, was an attempt to show that American attitudes to the PLO can still be changed.

City planner

■ Michael Cassidy, whose three years as chairman of the City of London's planning committee has taken in the "Big Bang", the stock market crash and a positive flood of foreign occupiers, developers and investors, will be leaving the job next month.

At the beginning, early in 1986, Cassidy presided over a revised local plan which would allow the City to build at least 20m sq ft of extra accommodation during the subsequent decade, and fight off the threat to its status as a top international financial centre. He served with style, and an infectious conviction. But he thinks that the very speed and force of his actions then, and since, might make it difficult for him to serve if he went for re-election.

Cassidy represents the Barbican and his support for the redevelopment of the windswept 1960s tower blocks on London Wall, on the northern boundary of the Square Mile, has put a lot of residential noses out of joint. There is a group on the planning committee itself which is looking for a change, partly conservationists and partly "people who'd like to go slower."

As a practising solicitor in the Chancery Lane firm of Maxwell, Batley & Co, Cassidy thinks that his nine partners – not to mention his two main clients, the Post Office and the British Telecom pension funds – have had a lot to put up with over the past three years. He spends half of a long working day on the City's business, driving himself everywhere despite being crippled by polio at the age of two. He dismisses that. "It doesn't affect me in the least and, at least, the disabled sticker has allowed me plenty of scope for parking."

He has just become engaged and is hoping to marry in the new year.

Bush speaks

■ President-elect Bush is developing his own one-liners. He told a Conservative dinner the other day that his career had proved that even the privileged can be upwardly mobile. And he said he couldn't talk about his economic policy because it was "déjà voodoo".

David Lascelles reports on Morgan Grenfell's retreat from the UK securities business

Reinforcing the City's insecurity

Morgan Grenfell – well established as a merchant bank but new to the securities business – was high on the list of City institutions where drastic corrective action in the wake of the market slump was expected. But this did little to cushion the City's shock at yesterday's news that 450 jobs would have to go less than three weeks before Christmas.

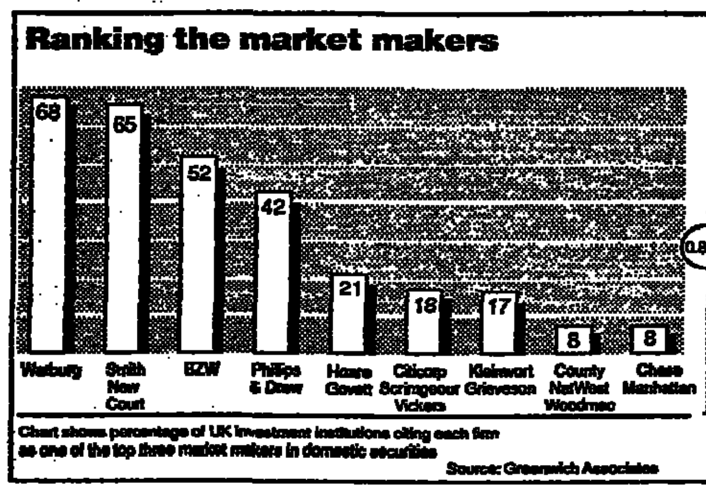
Morgan's cut is by far the most dramatic since the euphoria of the Big Bang began to fade nearly 18 months ago. It underlines just how severe the collapse in the markets has been. While the demise of a competitor usually cheers those who remain, this was not the case yesterday; if anything, it only reinforced the City's growing insecurity. "The market is in a sombre frame of mind," said an executive at another leading house.

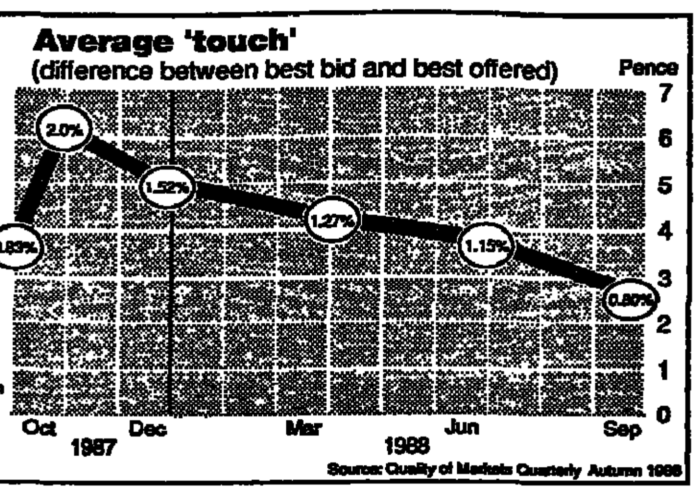
Morgan's decision, which was taken by Mr John Craven, its chief executive of 18 months' standing, amounts to an almost total retreat from the UK securities business. The merchant banking group is pulling out of market making in equities and gilt-edged stock, and is cutting its stockbroking and research operation to the minimum – perhaps two dozen people.

To some extent, Morgan's problems are of its own making. It fumbled its approach to the Big Bang in 1986 and failed to buy large, well-managed securities firms at a time when rivals like S.G. Warburg and Barclays de Zoete Wedd (BZW) planned big and bought accordingly. Morgan bought two small firms, Pember & Boyle, a gilts broker, and Pinchin Denny, a jobber. Neither had the muscle or distribution power to launch Morgan into the big time.

Morgan tried to compensate for this by building up its own securities business under Mr John Holmes, a dynamic broking executive hired from Hoare Govett. But despite Mr Holmes's considerable efforts and the expenditure of millions of pounds, the operation never reached a sufficient size to turn in a profit. Morgan's share of equity turnover was 2.5 per cent, and of gilts 5 per cent. In a survey of institutions conducted earlier this year, Morgan failed to gain a place in the top nine market makers.

Speculation began in the City soon after the October 1987 market crash that Morgan would have to call it a day. But the final decision was delayed in part because of Mr Craven's conviction that Morgan must be "an integrated house" to succeed in the modern international marketplace, and that included having a strong securities business to underwrite and distribute the deals generated by the corporate finance department – on the model of the big Wall Street investment banks. At the interim stage in June, he described the losses as "containable". But even that rationale failed to hold up in the intense competition that developed in late summer for what little business there was.





Last August, Phillips & Drew and Citicorp Scrimgeour Vickers began narrowing their spreads (the difference between the price at which they buy and sell stocks) to win market share. This forced others to follow suit and triggered a fierce price war which, according to estimates by BZW, drained £200m of profits out of the investment banking business. Morgan, which had been losing £1m a month on securities, saw the rate of loss more than double, and by the end of November had lost £22.25m. By then Morgan had already decided to call it quits, and as a prelude shut down its Australian securities operation on November 30.

The full extent of the squeeze on the City's markets was highlighted by the latest Quality of Markets Quarterly from the Stock Exchange. Trading was down by 30 per cent in value this year, and by even more, 45 per cent, in volume. Against this, though, there was no reduction at all in market making capacity. If anything, it had increased: the number of market makers in alpha (or blue chip) stocks was 15, against 13 the year before.

The "touch", or difference between best offered and best bid prices in the market, has also narrowed consistently since its peak just after the crash. Recently, some dealers have even gone so far as to quote a single bid and offered price merely to keep business ticking over.

The report commented: "Continued low levels of trading volumes may eventually take their toll on market making capacity, but there is no evidence to suggest that a reduction sufficient to harm the competitiveness or liquidity of the market would result."

Humiliating and painful though it may be, Morgan's retreat should not signal its decline as a City institution. The fact that its share price actually rose yesterday on the news rather suggests the opposite. Its banking, investment management, and the corporate finance business for which it is best known remain successful and profitable, and could benefit from the release of capital and management time that has been tied up in the securities side. The group will also regain acceptable levels of profitability.

Mr Craven maintains that Morgan will retain enough of its agency stockbroking business to mean that "the integrated concept is not dead". Apart from the small London operation which will be kept on, this includes C.J. Lawrence, the US stockbroking and research subsidiary, which is unaffected by the cuts. But the fact is that Morgan has, as of yesterday, become a specialised house again.

The switch in direction confirms the lesson that size matters for those who aspire to be serious players in the securities markets. Two clearers, Lloyds and Midland, have already pulled out because their market share was inadequate. Others, like Citicorp of the US, have trimmed their operations back. One competitor said of Morgan yesterday: "They were stuck in the middle ground. It's a very uncomfortable position to be in."

But even those houses which have established themselves as leading players are failing to make adequate profits. S.G. Warburg Group, considered by many to be the most successful house, post-Big Bang, admitted only two weeks ago that it was losing money on its equity business. BZW is also believed to be operating in the red on the securities side. Kleinwort Benson made a profit on equities in the first half of the year but has suffered like the rest from tight margins since then.

Hence the widespread expectation in the City that there are further cuts to come. Now that a prominent name has led the way, there will be less loss of face for those who follow. But Morgan's retreat has also weakened the strategic case for trying to be an all-round house in the hope that this will make it easier to achieve critical mass and produce the big prizes. In the end, it is the profits – or lack of them – that count.

The future of Reaganomics

William Niskanen assesses the legacy of Ronald Reagan

Reaganomics was the most ambitious attempt to change the course of US economic policy since the New Deal. The consistent and distinct theme of this programme, in Ronald Reagan's words, was that "only by reducing the growth of government can we increase the growth of the economy." The four key elements were:

- to reduce the growth of federal spending,
- to reduce individual and corporate tax rates,
- to reduce federal regulation,
- to reduce inflation by monetary restraint.

In direction, if not in magnitude, Reagan delivered on each of these promises.

General economic conditions are also quite favourable. The current recovery is now in its 73rd month, the longest peacetime recovery in US history. The unemployment rate is now the lowest for 14 years and both the inflation rate and long-term interest rates have declined about 6 percentage points since the end of the Carter administration.

This is a substantial record, for which Reagan deserves credit. In the end, however, there was no Reagan revolution. Although the growth of federal spending was reduced, the federal budget share of GNP, until recently, continued to increase. Although tax rates were reduced more than anticipated, some of this reduction was financed by shifting taxes to the future (via the deficit) or by increasing the taxes on new investment. Some deregulation was offset by a net increase in trade restraint. Moreover, the failure to reform the remaining government role in several industries left a high rate of bank failures, a large future bill to close insolvent banks which are still operating, increasing air traffic congestion, and the prospect of some reregulation. There is still no consensus on rules for the conduct of monetary policy and although economic recovery has lasted longer than usual, average economic growth in the 1980s has been about the same as in the 1970s. A Reagan revolution would have reduced both the number of lawyers in practice and the price of property in Washington; I need not remind you what happened.

In the absence of any significant change in the institutions, incentives, and constraints of federal policies, the achievements of Reaganomics could be reversed in one term of the Bush administration, although this is not likely. The future of Reaganomics will depend critically on how the major adverse legacy – the still large federal deficit – is resolved. Sustained budget restraint is necessary. The normal problem of constraining the growth of government spending will be compounded by the bills now coming due for expensive weapons systems, the closure of insolvent banks, and for repairing and replacing the government's nuclear materials facilities. Reducing the deficit either by tax rate increases or by reinflation, however, would reverse these successes.

How much of Reaganomics will survive? I am moderately optimistic. The reduction in marginal tax rates has become the symbol of tax reform, both in the US and abroad, and is unlikely to be reversed. Mr Bush made an unusually strong commitment against tax increases and proposed selective reductions in tax rates and the tax base. The contribution of "supply-side" economics will survive long after the phrase disappears from political discourse.

Similarly, the reduction in inflation is not likely to be reversed. During the 1970s, politicians in many countries claimed that inflation was out of their control – blaming whatever external condition provided a temporarily plausible explanation. However, the reduction in inflation in most advanced countries during the 1980s demonstrated that inflation is primarily a monetary phenomenon which can be reduced by sustained monetary restraint. This will make it more difficult for politicians to reinflate, again long after the term "monetarism" disappears from political discourse.

The main remaining problem is that there is no consensus on a rule for the conduct of monetary policy. More specifically, we expect our central banks to do too much. My primary immediate concern is that the central banks will take the Louvre Agreement on exchange rates too seriously, increasing the instability of domestic demand in an attempt to reduce the instability of exchange rates. My primary longer-term concern is that we have delegated one of the most important government roles to unelected central bankers, without clear rules on monetary policy.

On other issues, the future of Reaganomics is much less clear. Mr Bush has proposed increased spending for education and the environment and a variety of small tax preferences that will reduce the revenue base. Moreover, he will probably be forced to approve part of the agenda of the congressional Democrats to gain approval of administration initiatives. The still-large federal deficit will constrain new proposals for spending increases or tax cuts but is likely to divert the demands for special benefits into mandates on employers, selective trade restraints, and other regulation.

The major domestic opportunity of the Bush administration will be to consolidate the Reagan economic programme. The major risk is continued stalemate, similar to the last two years of the Reagan administration. Although Mr Bush won by a substantial margin, the Democrats, with a quite different agenda, increased their margin in both Congress and the states. Residual bitterness about the Bush campaign may have reduced the potential for bipartisan cooperation. In effect, Mr Bush will have to prove his mandate by early successes.

The primary reason why Reaganomics did not prove to be a revolution, however, is that there has not yet been a fundamental change in the perceptions about what the federal government should and, more importantly, should not do, at least among elected officials.

Ronald Reagan offered a vision that represents the best of the American heritage – a US of opportunity, tolerance, and caring. But his reluctance to face hard choices left Americans with some major new problems and an electorate which is still vulnerable to those who promote the competing vision of an expansive state.

The most distinctive characteristic of this century has been the pervasive growth of government. Reaganomics may prove to be only a temporary pause in this progressive loss of liberties. A more general sense of outrage about the contemporary role of government, one or more constitutional amendments, and new leaders who share Reagan's vision are probably necessary to protect and extend history's most noble experiment – the American revolution.

The author was a member of the President's Council of Economic Advisers between 1981 and 1985. This article is abridged from a paper which he will give at the Institute of Economic Affairs conference "Reaganomics and Beyond", QE2 Conference Centre, London SW1, on December 8

LETTERS

The OU: past . . .

From Lord Wilson of Rievaulx.

Sir, I was very pleased to see your article about the Open University (November 28).

OU planning goes back to the end of the Second World War, when all of us serving under the then Prime Minister, Clement Atlee, were concerned with the large numbers returning from war service who were searching for work. The idea developed, and in the early 1960s a Labour party study group presented a report and proposed a "University of the Air"; serious adult education by means of courses on radio and television.

On becoming Prime Minister in 1964 I announced the plan – only to be disappointed by the unwillingness of most newspapers to make the plan known. There was one exception: The Economist welcomed the idea. (At this point let me deny flatly the view, printed by some papers at that time, that the OU would be a soft option. My elder son, now a senior mathematics tutor at Oxford, told me – after very lengthy and very careful experience – that the courses at the OU were, if anything, *tougher* than the established Oxford courses.)

In later years other countries were to follow The Economist's active enthusiasm. I recall a flight to the US for a series of lecture courses. A number of people on the aircraft – some 20 of them – asked me what I thought was their purpose? These people were, in fact, going to instruct their American colleagues how to follow our lead.

Indeed, the developments went further: a number of experienced industrialists set up a series of studies related to particular developing industries. It was a pleasure for me to see those concerned planning to keep employees up-to-date.

I would say *the* most successful among all those creating the OU was Jennie Lee, who died a few weeks ago.

On my re-appointment to No 10 in 1966 I asked her to see what she would like to do. When I mentioned the Open University she grasped at the chance.

Without her I believe we should not have the OU of the years recently gone by. Let us hope that there is no action by Her Majesty's Government to destroy what has done so much for Britain and, indeed, the OUs of the civilised world of today.

Wilson of Rievaulx,
5 Ashley Gardens, SW1

. . .and present

From Mr David Lowry.

Sir, Michael Prowse's article on the Open University (November 28) is both balanced and supportive. As an OU academic, I am grateful.

However, he overlooks the role of research at the OU. In addition to its excellence in teaching-at-a-distance through multi-media methods, the OU sponsors research both in its central headquarters in Milton Keynes and in its 13 regions. The best teaching resources are only possible if the academics preparing them are up-to-date in their fields and *contributors* to the development of knowledge.

Mr Prowse mentions the recent Department of Education and Science (DES) grant increase awarded to the OU after the university had suffered severe, successive cutbacks in resource allocation. When under pressure, the OU courses output may well catch a cold, but the research programme contracts pneumonia.

Last week Brasseys published research papers in a book entitled Science and Mythology in the Making of Defence Policy. Each of the eight authors either is or recently was an OU academic. It is surely not healthy that good research and timely publications such as this could be curtailed because of a combination of penny-pinching and the apparent lack of knowledge by many potential sponsors that the OU can and does conduct excellent research.

David Lowry,
Research Fellow, Faculty of Technology,
The Open University.

From Ms Jacqueline Eustace.

Sir, Michael Prowse was right to emphasise the attractions of the Open University to FT readers (November 28). I might add that many OU courses which contribute to a degree are also available to people who find it convenient to study at home in their own time and who may not intend to take any other courses.

For example, FT readers may be interested in the third level applied economics course, *Economics and Government Policy* (which, incidentally, leads to exemption from the Public Finance paper of the Chartered Institute of Public Finance and Accountancy's Professional Examination 2). Students of that OU course are recommended to read the FT.

Jacqueline Eustace,
The Open University,
Walton Hall, Milton Keynes, Buckinghamshire

Student loans lag

From Professor Jack Wiseman.

Sir, The essentials of Clive Wolman's proposals for repaying student loans (December 1) have been common currency for 25 years. They are to be found in a 1964 Institute of Economic Affairs Hobart paper, "Education for Democrats", written by Alan (now Sir Alan) Peacock and myself.

The rate of progress so far suggests that the historic lag from academic scribbling to practical policy continues to be about 50 years. Almost any loan scheme is a step forward, but it seems likely that we shall have to wait for the defects in the present proposals to become manifest before something more sensible is considered "practicable".

Jack Wiseman,
Limetree House,
23 Bishop Wilton,
York

Disclosure standards

From Mr Michael Mumford.

Sir, The Accounting Standards Committee (ASC) has adopted a new size limit to use in deciding which large companies must disclose information – in this case about research and development expenditure.

For certain disclosure purposes the 1985 Companies Act (section 248) defines "large" companies as those which exceed any two or more of the following limits: turnover £8m; capital £3.9m; employees 250. This excludes all except 13,000 companies; less than 2 per cent of those on the register.

The ASC has now adopted a definition 10 times as large as section 248's, to be used to exclude private (though not public) companies from disclosure. The Dearing report on accounting standards suggests that this limit might become used on other occasions, also.

Research shows that the factor of 10 would eliminate over 98 per cent of private companies defined as "large" under company law (and the European 4th Directive). Only some 140 out of 8,000 companies would remain. Indeed, if the same limit was applied to "large" public companies it would exclude over 90 per cent of these too.

There is either a case for a standard, which should then be applied to all companies, or – if the information is as sensitive as the ASC implies – it should be made obligatory in some less arbitrary manner.

As it is, 5,000 UK public companies will have to disclose what many (private) subsidiaries of overseas parents will not. This will hasten an already perceptible trend away from registration in the UK as a public company.

Michael J. Mumford,
International Centre for Research in Accounting,
University of Lancaster

Deep-rooted obligation to help out

From Mr L. Reich.

Sir, Your legal correspondent writes: "English law . . . does not oblige anyone to come to another's rescue" (December 1). He goes on to say that we need to turn to Continental law based on Kantian concepts.

Why not go back a long way further, to Leviticus 19:16?

"Do not stand by and see you neighbour's blood spilt".

The well developed Hebrew Talmudical legal corpus codified this requirement in great detail. The medieval authority Maimonidies states that one is obliged even to spend money, later recoverable, in order to save another from physical or financial harm.

L. Reich,
Anchor House,
10 Norfolk Street,
Manchester.

FINANCIAL TIMES
Wednesday December 7 1988

UK plasterboard maker fined for bid to halt imports

By William Dawkins in Brussels and Andrew Taylor in London

BPB Industries, Europe's biggest plasterboard manufacturer was yesterday fined Ecu3.15m ($3.74m) by the European Commission for using illegal means to stop imported Spanish plasterboard being sold in the UK.

The company, Britain's only manufacturer of plasterboard, said last night it was considering appealing to the European Court. It denied it had broken EC rules.

Iberian Trading, the importer which filed the complaint against BPB, is now part of Redland, the British building materials company which has joined with CSR of Australia to supply plasterboard to the UK.

BPB has for the past 20 years supplied more than 90 per cent of all plasterboard sold in the UK and is the largest supplier in France, Austria, Sweden, the Netherlands and Ireland. It is also the second biggest producer in West Germany behind the privately owned Knauf.

However, BPB has recently come up against heavy competition. Knauf is soon due to start production of plasterboard at Sittingbourne, in the south east of England and plans a second plant at Goole in the north. Redland, which is building a factory at Bristol, in the west, is also considering a second plant.

The European Commission yesterday said BPB had sought to protect its home market against Spanish imports by giving so-called "fidelity rebates" to builders' merchants so that they would buy exclusively from BPB. These incentives, the Commission said, included rapid deliveries and favourable treatment during a shortage of plaster products.

BPB said the offences were alleged by the Commission to have taken place in Britain and northern Ireland several years ago and did not affect its current operations.

The fine is relatively modest by comparison with BPB's pretax profit which rose by 14.5 per cent to £104.1m ($194m) during the six months to the end of September. Turnover increased from £434.1m to £485.9m.

BPB, which published its interim results last week, warned analysts that UK plasterboard prices were likely to fall as a result of increased competition.

It said annual plasterboard capacity in the UK would be about 260m sq metres by the end of next year compared with sales this year of about 180m sq metres.

Bonn tackles the pensions bulge

David Goodhart reports on a proposal to raise the age of retirement

WEST Germany, famous for its shortening working week, may soon be blazing a trail in the opposite direction by becoming the first industrial country to *raise* the retirement age.

A proposal to push up the pension qualifying age to 65 for men and women – from the 60 years for women and 63 for men at present – appears in a discussion paper on pension reform just published by Mr Norbert Bluem, the Employment Minister, which will form the basis of legislation due to become law in early 1990.

West German policy-makers, like those in many other industrial countries, over the past few years have started to agonise over the fiscal consequences of sharply declining birth-rates, and thus fewer tax-paying workers, combined with a growing army of pensioners living ever longer.

Because the birth-rate has fallen more sharply in West Germany than in most comparable countries, some believe that the country will face particularly tough choices by the middle of the next century, *when one person in three could be 65 or over.*

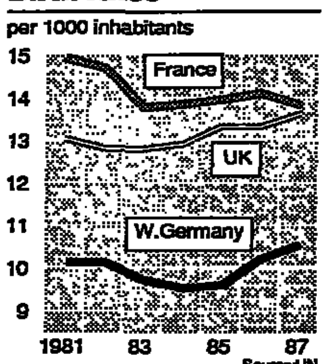
Some of the projections certainly look frightening. There are now 12m West German pensioners supported by 22.4m workers. But the ratio of workers to pensioners is expected to slip from about to 2:1 to less than 1:1 by 2030, when 14.4m workers will have to support 15m pensioners.

Combine that with the unusually lengthy education of many young West Germans and the gradual shrinkage of the working lifetime and the claim that, without radical overhaul, pensions will either need to be halved or contributions doubled by 2030, looks almost reasonable.

However, that calculation takes no account of the positive effects on national

Birth rates

per 1000 inhabitants



Source:UN

finances of an ageing population. The Organisation for Economic Co-operation and Development believes social spending in West Germany will actually *fall* between 1980 and 2040 because the rising cost of pensions will be more than outweighed by savings on education, family benefits and health.

New sources of labour are also likely to be tapped: more women will join the workforce, *a continuing flow of Germans* from the East bloc is expected and that may be boosted by workers from poorer EC countries as barriers are eased. Finally, unemployment is expected to decline sharply which, according to BDA, the employers' organisation, will save the Government about DM170bn ($98.8bn) over the next 20 years.

The centre-right Administration remains anxious about the future of pensions but there is sufficient awareness of the possible countervailing factors and the fallibility of projections for Mr Bluem to stress that his proposals are only a "provisional reform" designed to last about 20 years. Further steps may then be required but will be considerably less disruptive.

Like his reform of the health system, there is nothing "root and branch" about the latest pension proposals. It is rather a cost-trimming exercise designed to correct for the generous 1970s when, instead of saving for the next century, the surplus went into higher benefits.

Mr Bluem believes that pension reform will receive a less stormy political passage than health reform and is going out of his way to stress that the burden is being spread across all the main interested parties – pensioners, workers, employers and the Government – and it is still unclear whether the SPD will join a multi-party consensus.

The Greens and some parts of the SPD would prefer a more egalitarian system with a fixed pension but varying contributions dependent on income.

Radical reform proposals have also come from within the Christian Democratic Union, the dominant party in the governing coalition. One suggestion is that pensions should be paid out of general *taxation and be topped up with* private pension schemes. Another idea is that pension contributions should be paid into funds responsible for investing the money and paying pensioners, as was the case before 1957.

But the structure of the non-funded system is not in danger. Most of the DM170bn now spent annually on pensions will continue to be channelled through the one organisation for white-collar workers and 11 for blue-collar workers which collect and distribute contributions.

The average contribution is 18.7 per cent of gross salary split evenly between employer and employee, which provides an average monthly pension of DM1,300, about 65 per cent of average net income. The pensions rise in line with gross income and are only lightly taxed.

Contributions have been creeping up from only 14 per cent of gross income in 1957 and will continue to rise. Under Mr Bluem's plans the contribution will rise to 21 per cent in 2010, *but he insists that* without other cost-cutting measures they would have had to rise to 24 per cent.

The other measures include: raising pensions only in line with net (not gross) income, due in 1992; raising the retirement age, due in 1995; and reducing the maximum number of years in higher education that can count towards a pension from 13 to seven.

The Government is also proposing to increase slightly its contribution, which has slipped from 32 per cent of total cost in 1957 to only 17.5 per cent today. However the slight rise to 20 per cent will be more than offset by the increased costs that the Government is simultaneously imposing.

These mainly concern incen*tives to child-rearing. Although* the Federal Republic has remained squeamish about adopting a "population policy" after Nazi enthusiasm in this field, the Government now accepts the argument of economists that children should be regarded as an investment good rather than a consumer good.

In other words the tax and pension system should try and compensate families for the extra cost of bringing up children. Mr Bluem is not prepared to tackle the absurdity of working couples without children often enjoying higher incomes in retirement than they did when working. But he is proposing, that mothers should qualify for three years' pension, rather than the one year at present, for every child.

Poles pull out of $500m contract with Fiat

By Christopher Bobinski in Warsaw

POLAND has cancelled a project worth some $500m to produce a new medium-sized passenger car in co-operation with Fiat Auto of Italy at Warsaw's FSO car factory. However, the plant may instead produce a smaller Fiat model, which would require lower investment at the plant.

The contract with Fiat for the refurbishment of the plant to produce the medium-sized model was initialled by representatives of Polmot, the Polish car foreign trade company, last Wednesday and the official signing with Fiat was scheduled for December 21.

But yesterday Mr Jerzy Urban, the government spokesman, told his weekly press conference that Mr Mieczyslaw Wilczek, the Industry Minister, said Poland could not afford the modernisation of the plant that would be needed to produce the larger model.

Fiat said yesterday that Mr Wilczek was due to travel to Italy soon for further talks.

The Polish decision has prompted the resignation of Mr Edmund Pietrzak, manager at FSO since 1982, who for the past four years has led negotiations with Western car producers aimed at modernising his plant.

FSO has an annual output of 110,000 Polonez cars developed in the 1970s as well as the 1960s Fiat 125 model.

The contract envisaged total annual production at the plant of 130,000 of the new medium-sized vehicles, which would be based on Fiat's Uno, after three years.

Mr Pietrzak, who finally brought the negotiations down to two bidders, Fiat and Daihatsu of Japan, with Fiat the winner, resigned in protest over modernisation plans being put forward by the Industry Ministry and because he believes the contract was economically viable.

Mr Wilczek, for his part, charged that FSO had underestimated the real investment costs of the project and is arguing that the Warsaw plant should instead produce the Topolino. This is the planned replacement for the small Fiat 126, a car dating from the early 1970s and which is currently made at Poland's other car factory, FSM, in Bielsko Biala in the south.

FSM already has a contract with Fiat to bring small car output there up to an annual 300,000 in the early 1990s to be paid for by exports to Western Europe through the Fiat retail network.

The present contract with FSO was to have given Poland a new medium-sized car to be paid for in the same way.

According to the Industry Ministry, car output in Poland would total in excess of 500,000 vehicles a year were FSO to switch production but these figures are questioned.

Alan Friedman adds: In Turin, Mr Camillo Fre, a Fiat spokesman said Fiat saw the decision as "a transformation of our agreement and not a cancellation."

"We are considering the Polish Government's new idea and we will evaluate the situation and the hypothesis of producing a small car instead of a medium-sized car," Mr Fre said.

THE LEX COLUMN

Morgan starts the market trend

Beyond question, Morgan Grenfell's retreat from the bear pit is only the first of a series. This is not only because the firm's market share had dwindled to little more than 2 per cent, and industry overcapacity is vastly greater than that. It is also because, as Morgan itself made plain yesterday, the chief problem since August has been not volume, but margins. Even if market turnover stays unchanged next year, brokers now preparing their budgets must reckon on a worse start to 1989 than to 1988 – a fact which must weigh with their providers of capital.

It seems equally likely that Morgan's plans for niche agency broking, based on a research team little more than a dozen strong, is only a stage on the road to complete withdrawal from equities in the Greenwell manner. Shedding the apparatus of market-making and returning to old-style broking scarcely seems an option any more, if only because the whole point of market-makers quoting nominal sizes is to shut such competition out. The agency broking market seems in any case cornered by James Capel, less because of research these days than by virtue of sheer size as a customer.

The question now is who cracks next. In market-making, some eight firms command three quarters of the market, and besides the host of smaller fry who must be on the verge of tiptoeing away, it would be surprising if one of the big players did not beat a more spectacular retreat. The sad truth is that none of this may be enough; the real heavies – Nomura, Morgan Stanley, Goldman Sachs - are still only *nibbling at the London market*, and may well be prepared to expand as others back away.

GEC

In the shadow of the bid for Plessey, GEC's interims have rather a conditional air. But after all, it is by no means impossible that the bid will *fail, in which case the figures* give a reasonably encouraging picture of what shareholders will be left with. In the context of a better than expected profit figure overall, it might be thought worrying that the biggest divisional increases come in areas such as components, which might be exposed to an economic downturn next year. But in that case, GEC's much criticised reliance on defence and telecoms *could come into* its own, with the MoD apparently relaxing its budget constraints and British Telecom's capital expenditure programme lifting off its plateau. GEC's earnings per share seem to be doing likewise, with a 9 per cent rise in prospect for the full year after a compound rate over the past five years of 2.5 per cent. The shares may be dominated by the Plessey deal, but it is comforting to know that there is a fundamental backstop should things go wrong.

Trafalgar House

It takes a pretty sophisticated calculator to make a 20 per cent decline in first quarter sales and clear pressure on prices add up to the same level of house building profits this year as in the halcyon days just past. Indeed, the market seems to have had so much difficulty following Mr Eric Parker's arithmetic on the subject that it marked the shares down a couple of per cent out of sheer frustration.

It ought to have spared itself the effort: the range of prices in the company's land bank surely gives Mr Parker the *flexibility he needs to choose* figures which add up to parity. And even if the housing market gets into enough trouble to make this impossible, Trafalgar House is unlikely to be among the most grotesque of the casualties.

So with any luck, Mr Parker should be able to engineer the kind of soft landing for house building profits which he can only wish for from the share price. But if, as seems a fair bet, the company's property portfolio and its construction activities begin to take up where houses leave off, the combination of a prospective yield of nearly 8 per cent and a rating of only 7½ times earnings should begin to invigorate a market bored to tears with the stock's past underperformance. No doubt Trafalgar House still deserves a substantial discount to Hanson – but probably not as much as the current two points.

Argyll

The wholehearted enthusiasm which greeted predictably decent results from Argyll shows the market is tiring of selling the food retailers. While the 20 per cent underperformance of the sector this year has arguably gone far enough, there was little in the results to merit yesterday's 5.5p rise in the shares and the sympathetic gains by both Sainsbury and Tesco. The market is terrified that the industry has miscalculated how many vast new supermarkets the country can absorb, and has become obsessed with real volume growth. Thus the 3.5 per cent advance by Argyll – a distinct improvement on the 1 per cent managed by the big two – was taken to mean that saturation is not round the corner after all.

In fact the numbers imply nothing of the sort: given the large proportion of young Safeway stores, some real progress *for the next year or two was* more or less assured. Indeed, this is one of the company's strengths, and together with its big-earning cash balances, makes it a defensive choice in a sector that is rapidly losing that characteristic.

Mujahideen promise Soviets safe passage

By Christina Lamb in Islamabad and Andrew Gowers in London

HOPES for a peaceful resolution of the Afghan conflict rose yesterday after Moslem resistance leaders promised to allow Soviet troops to complete their withdrawal from the country unharmed and Moscow's chief negotiator indicated that conditions were right for the establishment of a broad-based government in Kabul.

Following the first high-level meeting between the Soviet Union and Mujahideen rebels in the Saudi Arabian resort of Taif at the weekend, both sides agreed to further talks in Islamabad in the near future.

In a statement issued in Pakistan yesterday, the rebels indicated that they had agreed to give Soviet forces safe passage out of Afghanistan by the deadline of February 15 provided the Soviets take back newly-deployed weapons and stop bombing villages.

Mr Yuli Vorontsov, Moscow's Deputy Foreign Minister and ambassador to Kabul who led the Soviet side, told Saudi Arabia's King Fahd in Riyadh on Monday night that Soviet troops might even leave before the deadline.

The discussions, described by a UN official as preliminary in nature, focused on a US proposal to form an interim government comprising a council of resistance leaders, technocrats, intellectuals who fled to the West and non-party members of the present Kabul regime who are "good Moslems".

The Mujahideen delegation, led by Prof. Burhanuddin Rabbani, chairman of the resistance alliance, welcomed the idea of a broad-based government but rejected the inclusion of regime members.

It is widely thought, however, that the resistance will ultimately accept non-communist regime members, but that it wants to reserve its position until it has extracted the maximum concessions from the Soviets.

The Soviets have not yet said that they are ready to drop the ruling Afghan communist party (PDPA), but one diplomat said yesterday: "The very fact that they agreed to these talks which excluded the regime shows that the PDPA's days are over."

A UN official said: "President Najibullah (PDPA leader) is virtually a prisoner in Kabul. The Soviets need him as their last bargaining chip and won't let him go until the resistance has agreed to a government which preserves Soviet interests."

Soviet enlightenment remains in the dark

Continued from Page 1

refuel – and catch a glimpse of that desolate Newfoundland staging post which is the favourite defection point for East European airline crews.

Nobody minded until we heard how the Soviet press corps had travelled: First Class non-stop by Pan Am to New York – paid for in roubles. There is even a rumour that they have chartered an American aircraft to take them down to Cuba on Friday.

Our arrival in New York was clearly a taste of things to come for Mr Gorbachev who was due to land at JFK on board his own aircraft last night. We taxied to a far corner of the field where a sign was tacked up to the concrete wall of a hangar: Welcome General Secretary. In spite of knowing more about queues, thanks to Moscow, than most people, we were spoiled by having US Immigration inspect our passports on the aircraft.

Then problems struck. Showing true Soviet initiative, Aeroflot had decided to use up the extra space on the aircraft to fly someone else's excess baggage to New York. The modest media bags – with the exception of the television equipment – came off with an extraordinary assortment of string-tied bundles which, judging by their labels, belonged to would-be Armenian emigrants from the Soviet Union.

The only answer was to put it all on the same bus for town.

"We will go to the Soviet mission," the man in the trench-coat said, (he could have been on either side, from his looks.) "There we will have information."

By the time we got there, however, the information had gone somewhere else: to a press conference at the United Nations which we had missed. The streets around are festooned with signs to keep the New Yorkers away during the General Secretary's visit. Nearby residents have been warned not to linger at their windows, or on their balconies – US security overkill.

The press conference was over, the UN was closed, and it was everyone for himself.

WORLD WEATHER

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	F	14	57	Dubrovnik	F	15	59	Malta	F	18	64	Rhodes	S	17	63
Algiers	F	18	64	Edinburgh	F	08	46	Manchester	S	06	43	Rio de J'o	F	32	90
Amsterdam	F	07	45	Faro	S	17	63	Manila	F	31	88	Rome	R	19	66
Athens	C	19	66	Florence	S	17	63	Melbourne	-	-	-	Salzburg	Sn	02	36
Bahrain	F	24	75	Frankfurt	C	08	47	Mexico City	F	17	63	San Francisco	F	20	68
Bangkok	F	31	88	Funchal	S	15	59	Miami	C	23	75	Seoul	F	08	46
Barcelona	S	16	61	Geneva	R	13	55	Milan	-	-	-	Singapore	C	30	86
Beirut	C	17	63	Gibraltar	S	17	63	Montreal	C	-8	18	Stockholm	Sn	00	32
Belfast	S	07	45	Glasgow	F	07	45	Moscow	C	-8	18	Strasbourg	C	06	43
Belgrade	R	04	39	Guernsey	F	08	46	Munich	C	02	36	Sydney	C	22	72
Berlin	R	05	41	Helsinki	C	00	32	Nairobi	C	24	75	Taipei	F	24	75
Biarritz	C	11	52	H Kong	F	18	66	Naples	F	17	63	Tangier	C	15	59
Bombay	S	31	88	Innsbruck	C	02	36	Nassau	F	25	78	Tel Aviv	C	18	64
Bordeaux	F	09	48	Inverness	C	07	45	New Delhi	F	24	75	Tenerife	S	22	72
Brussels	C	08	46	Islamabad	F	24	75	New York	C	07	44	Tokyo	F	14	57
Budapest	Sn	05	41	Istanbul	F	14	57	Nice	S	17	63	Toronto	C	04	39
B. Aires	C	30	86	Jakarta	C	32	90	Nicosia	F	18	64	Tunis	C	18	64
Cairo	F	21	70	Jersey	F	09	48	Oporto	S	12	54	Valencia	S	16	61
Cape Town	S	27	81	Jo'burg	C	22	72	Oslo	C	00	32	Venice	F	10	50
Caracas	C	25	77	Lima	F	22	72	Paris	R	12	54	Vienna	F	05	41
Casablanca	F	17	63	Lisbon	F	16	61	Peking	S	05	41	Warsaw	R	03	37
Chicago	C	08	47	London	F	07	45	Prague	F	04	39	Washington	-	-	-
Cologne	C	06	43	Los Angeles	F	28	82	Reykjavik	R	08	46	Zurich	Sl	03	37
Copenhagen	C	03	37	Luxembourg	F	03	37								
Corfu	F	16	61	Madrid	S	11	52								
Dallas	-	-	-	Majorca	F	16	61								
Dublin	S	07	45	Malaga	S	18	64								

Readings at mid-day yesterday

C-Cloudy D-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

Morgan shuts UK securities business

Continued from Page 1

ven said that Morgan's board believed that the restructuring was in the interests of the group as a whole "and that the overall prospects of the group are excellent."

In the stock market, Morgan's announcement got a positive response. The group's shares closed up 11p at 310p.

It was not clear how yesterday's developments would affect the position of Mr John Holmes, chief executive of Morgan Grenfell Securities. Mr Michael Dobson, the deputy chief executive, said he hoped that Mr Holmes would stay on.

However he is expected to announce his resignation. Mr Holmes was not available to comment.

Morgan becomes the largest casualty of Big Bang, both in terms of numbers of staff laid off and as the only house to withdraw from both equity and gilt-edged dealing. Other casualties have included several withdrawals from the gilt-edged market, such as Lloyds Bank, Pru-Bache and Citicorp, and one from the equity market, Midland Bank.

Other houses said that Morgan had failed to assemble a large enough operation at the time of Big Bang, and that its weak market position made it *highly* vulnerable to the recent intensification of competition. There had been speculation about its possible withdrawal from securities for several weeks. However within Morgan Grenfell Securities, members of the staff attacked the group's decision as short-sighted and unfair.

FINANCIAL TIMES
COMPANIES & MARKETS
Wednesday December 7 1988

INSIDE

Trafalgar puts on the Ritz

Trafalgar House, the UK shipping, property and construction group which owns Cunard and the Ritz hotel in London, increased pre-tax profits by 40 per cent to £229.1m ($424m) in the year to September 30. The figures were at the top end of forecasts, but the shares of the group headed by Sir Nigel Broackes closed lower because of concerns about the UK housebuilding market. Page 32

Swiss personality switch

The Swiss stock market has undergone a personality change: once a safe but dull haven for long-term investment, Zurich has become a speculative trading market where short-term considerations hold sway. The catalyst was the recent move by Nestlé, allowing foreigners to buy its registered shares. Page 52

An enigma amid the soap suds

Henkel

Any company which lists a Mr Franz Kafka among its senior directors might be expected to appear a shade enigmatic. This is certainly the case at Henkel, the West German chemicals group which includes the detergent Persil among its products. Peter Marsh looks at the performance of West Germany's fourth biggest chemicals business. Page 29

Limelight for poor man's crop

Cassava, known in Africa as the poor man's crop, has attracted little attention from researchers in the past in spite of the continent's famine problems. Now the International Institute of Tropical Agriculture is pushing the crop into the limelight by trying to develop higher-yielding, more disease resistant varieties. As cassava can tolerate erratic rainfall patterns, it is seen as crop for the future. Page 40

As safe as British houses

The emergence in the UK of new specialist residential mortgage lenders, such as the Household Mortgage Corporation and the National Home Loans Corporation, funded from the Euromarkets, has also led to innovation in the property and liability insurance field: the mortgage pool indemnity provides a safety net for bond holders against the risk of default by British home-owners. Page 31

Splashing out on the soda

Botswana is in the process of realising a 22-year-old dream. For years a project to establish a big new soda ash mining industry at the Sua Pan brine deposits in the arid centre of the country has seemed as elusive as a mirage. But now a $456m joint venture has been put together to mine the vast Southern African deposits. Soda ash is a compound used in making glass, paper, and steel. Page 29

Market Statistics

Companies in this section

Chief price changes yesterday

FRANKFURT (DM)			
Rises			
Mannesmann	199.5	+	4.9
Kaufhof	419	+	10
Falls			
Rheinelektra	285	−	14.5
RWE	228.5	−	7.5
NEW YORK ($)			
Rises			
Amer Express	28¾	+	¾
Prime Computer	17⅝	+	¾
Borg Group	46⅞	+	1⅛
Dun&Brad	46⅛	+	1⅛
Falls			
Long Isl Light	12⅞	−	1⅞
Pfizer	57⅛	−	¾
PARIS (FFr)			
Rises			
Ingenico	358.7	+	17.7
Cedetel	182	+	7
Locafrance	435	+	15
Falls			
Nordon	370	−	10
Carrel Pas	580	−	15
TOKYO (Yen)			
Rises			
Kamai Iron Wks	1190	+	190
Hotorno	1190	+	140
Nalgel	1010	+	97
Falls			
Ichid Motors	1260	−	180
Honshu Chem	1000	−	80
Rami	1890	−	110

New York prices at 12.30.

LONDON (Pence)			
Rises			
Abbey Life	288½	+	5
Alexanders Hids	38	+	5
Argyll Group	182½	+	5½
Downey Warren	125	+	8
Febel Int.	50	+	5
Ladbroke	409½	+	8½
Legal & General	286	+	8
Morgan Grenfell	310	+	11
NEI	130½	+	6½
Plessey	216	+	6
Royal Ins.	371	+	8½
Falls			
Atkins Bros	368	−	10
Br Steel (pfpd)	61	−	1¼
ITL Info.	28	−	8
Lmonth Bchtt.	152	−	30
Next	125	−	7
Rossborough	571	−	16
Trafalgar Hse	308½	−	6

GEC profit rise helps its battle position

By Terry Dodsworth, Industrial Editor, in London

THE General Electric Company strengthened its position yesterday for its forthcoming takeover battle for the Plessey electronics group when it produced unexpectedly strong first half figures.

The group's 10 per cent increase in pre-tax profits to £313m ($579m) against £284m a year ago was well above most Stock Market forecasts, and helped the share price rise by 3p to 178p in relatively heavy trading. At a trading level the performance was even stronger, with profits rising by 19 per cent to £250m from £210m before interest receivable.

Lord Prior, chairman, gave no forecast for the rest of the year, but he delivered a generally optimistic appraisal of the company's activities. Most of GEC's businesses were doing well, he said, and the "results indicate the positive response to the recent reorganisation of our core activities."

Turnover for the six months rose by 15 per cent to £3.08bn from £2.68bn, while the order book rose by 6.3 per cent to £6.7bn from £6.3bn. Earnings per share jumped by 12 per cent before extraordinary items to 7.5p against 6.7p, and the directors are increasing the interim dividend by 19 per cent to 2.15p against 1.80p.

Analysts described the figures as a helpful platform from which to launch the group's joint bid with Siemens of West Germany for Plessey. Details of the 225p cash offer, first outlined almost three weeks ago, are expected next week.

The upswing in GEC's trading performance was broadly-based across most of its major activities. Two main exceptions to this pattern were the Marconi defence systems division and the telecommunications activities, which are now run in the GPT joint venture with Plessey. Both of these divisions, which are the main focus of the group's takeover proposals, showed flat profits, with Marconi producing £77m against the same figure last year, and the telecommunications company showing a marginal increase to £20m from £19m in 1987.

Power systems, on the other hand, saw an increase to £44m from £38m, while consumer goods rose to £28m from £24m, mainly as a result of the Creda acquisition, and electronic metrology jumped to £21m from £10m, helped by the takeover of Gilbarco in the US. The office equipment and printing division also showed a significant increase to £16m from £14m, while medical equipment rose to £12m from £6m, and electronic components to £10 from £6m. In the industrial apparatus unit profits slipped to £11m from £13m, mainly because of problems in the lifts activities.

GEC said that interest receivable had fallen because of the reduction in average liquid funds following acquisitions made in the latter part of the six months to September lat year. But net cash and short term investments were only slightly lower at the end of September this year, standing at £1.24bn against £1.3bn a year ago.

Lex, Page 24

Bid for Plessey cleared by Oftel

By Hugo Dixon in London

THE Siemens-GEC bid for Plessey has got the green light from Professor Bryan Carsberg, the director-general of the UK's Office of Telecommunications, the industry watchdog.

Prof Carsberg's attitude is important, as he is the most influential voice in determining the UK Government's telecommunications policy. Disapproval by Oftel on either monopoly or industrial grounds would have been a serious impediment to the £1.7bn ($3.2bn) bid going ahead.

Prof Carsberg said yesterday the bid did not raise competition issues as far as the telecommunications industry was concerned. If the companies decided to merge, "that is fine by me."

He has accepted the argument that there would be considerable economies of scale from a telecommunications alliance between Siemens, GEC and Plessey. "One has to conclude, from the heavy research and development costs in this area, that it not realistic to expect every nation to go it alone."

A similar concern to achieve economies of scale weighed heavily with Prof Carsberg when he gave his blessing to the merger of GEC and Plessey's telecommunications interests to form GPT earlier this year. However, bringing in Siemens would quadruple the size of the grouping's telecommunications sales to £5.7bn a year.

Prof Carsberg said he was unworried by such a concentration because the industry was international. "You've still got enormous players like AT&T, Ericsson and Alcatel."

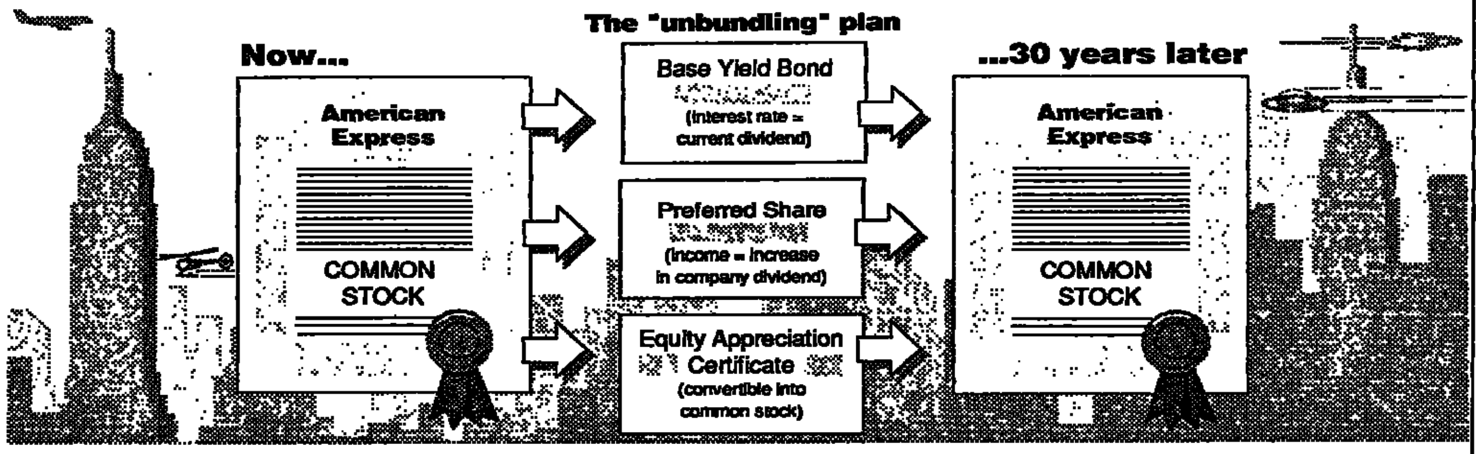
He was also unconcerned that, following a successful bid, Siemens might seek to cut back telecommunications R&D in the UK. It was important to secure Britain's continuing involvement in the telecommunications business and, from this point of view, an alliance with Siemens could be viewed "as much as a strengthening as a weakening. What is likely to come out of this is a co-operation agreement in which both parties benefit."

Prof Carsberg stressed that his views related only to the telecommunications aspects of the bid, not the defence aspects. These are being scrutinised by the Ministry of Defence, which is likely to suggest that some of Plessey's £500m-a-year defence business should be hived off.

Under the takeover, Siemens would take control of 40 per cent of GPT. Further details of how interests are to be integrated will be revealed in the offer document expected early next week.

Risking a bundle on Wall St

Anatole Kaletsky in New York on a $5bn financial experiment



The principle of risk aversion is one of the time-honoured concepts on which the economic analysis of financial markets and investment behaviour has always been built. This principle says that people normally demand a higher reward for putting their money into investments that are riskier than into those which they perceive as safe.

In the brave new world of financial deregulation, the principle of risk aversion, like so much else that every schoolboy knew of economic theory, has been stood on its head. Today's markets are dominated not by risk avoiders, but by investors and speculators who positively love taking risks. And it is this switch from risk-averse to risk-preferring behaviour that explains many of the strange innovations, from leveraged buy-outs to the explosions of options and futures trading, which have appeared worldwide over the past few years.

This point of view, put forward by Mr Roger Kubarych, a leading financial economist who works for the New York bond-management firm of Henry Kaufman & Company, is probably the best way to understand the complex and apparently bizarre experiment announced on Monday, when four top US corporations said they would attempt to replace up to 20 per cent of their common equity with new instruments, to be called Unbundled Securities Units or USUs.

These USUs, according to their inventor, the big Wall Street brokerage house of Shearson Lehman Hutton, could eventually revolutionise the whole concept of stock-market investment, by recognising explicitly that investors have three quite distinct reasons for wanting to buy equities. Some simply want the current dividend income. Some are more interested in the prospect of dividend increases over the years. The third group hopes mainly for capital gains by eventually selling their shares at a higher price.

By splitting a share of common stock into a bundle of three securities designed to appeal to these different types of investors, Shearson believes that it could eventually expand its USU concept to a much broader range of leading corporations than the four issuers announced on Monday – American Express, Dow Chemical, Pfizer and Sara Lee.

But is catering to diverse investors' needs really the main attraction of the USU concept? Or is it, as many analysts on Wall Street have immediately suggested, essentially a tax dodge, designed to let companies benefit from the relatively generous treatment of interest payments in the US tax code?

In fact, if the USU concept succeeds, the main explanation will have more to do with the risk-seeking behaviour of American investors than with taxes. To that extent, Shearson will be right in its perception that good old-fashioned common stocks are just too safe for many of today's investors. To see why, consider the three types of securities in the USU bundle, using as an example American Express, the biggest of the groups involved, and also Shearson's parent.

American Express is hoping to convert 60m shares or 14.4 per cent of its common shares, currently worth about $28 (£15) each, into USU bundles which will consist of three types of securities:

● Base Yield Bonds, which will provide an interest payment equal to American Express's current annual dividend of 84 cents a share. The bonds will be redeemed in 30 years' time for a value which has not yet been announced but is expected to be around $75 each. These bonds will be fixed-interest obligations of the company, exactly like any other 30-year debentures. At current long-term interest rates, their market value should be about $17 each, to provide a yield to maturity of around 10 per cent.

● Incremental Dividend Preferred Shares (IDPs), which will pay their holders an income equivalent to any dividends declared by American Express beyond the current 84 cents a share. Thus, the payments made each year to holders of the BYBs and IDPs together will be exactly equal to the dividends paid to holders of Amex common stock.

● Equity Appreciation Certificates (EACs), which will give holders the option to buy one share of American Express common stock at a fixed price at any time over the next 30 years. These EACs will be similar to the long-term warrants which are familiar in the Euromarkets and the London stock market. Their price for conversion into American Express common shares will be the same as the redemption price for the BYBs, say $75. At the end of 30 years, provided the company's stock price is by then above $75 a share, holders of EACs will pay American Express $75 each to convert into American Express shares – and this money will be immediately used by the company to redeem the bonds held by BYB investors.

After 30 years, therefore, the rebundling of the USUs would cancel all the effects of the initial unbundling. In the meantime, the company's payments to USU investors would be exactly the same as its dividends payments to holders of its common stocks. The crucial difference, however, is that a large slice of the USU payment – the 84 cents a share going to holders of the base yield bonds – would be interest, rather than dividends. Because interest payments are tax deductible while dividends are not, the company's net income would be increased accordingly.

This unequal tax treatment is the reason why many analysts see the USUs as little more than a fiscal gimmick – and why the new securities may be giving a hostage to fortune at a time when Congress is becoming increasingly concerned about the tax exemptions for all corporate interest payments.

Assuming, however, that the tax law remains as it is, the key question is why swapping common stock into USUs should be any more attractive to American Express and its shareholders than simply borrowing money through conventional deep-discount debentures and using the proceeds to buy back equity.

The obvious answer is that the IDP and EAC components of the USUs will command a significant value in the market and this will reduce the amount of new debt American Express will have to raise to buy back each share of its common stock. Of course, the 60m EACs and IDPs to be issued will also dilute the common shareholders' ownership of American Express in the same way as would the sale of 60m warrants and shares of preferred stocks.

Thus USUs will be a successful concept if, and only if, investors prize the risky warrants and preferred shares in the USU bundle more highly than they would an equivalent, and less volatile, direct shareholding. If large numbers of shareholders do decide to swap their common stocks into USUs, it will tell us something about the spirit of our times – for instance, that the era of bullish optimism on Wall Street is far from over.

Nomura buys into French broker

By George Graham in Paris

NOMURA, the largest Japanese securities group, has announced a stake of 10 per cent in the French stockbroker François-Dufour Kervern. It is the first stake to be taken in a French broker by a Japanese house, and Nomura's first such holding in Europe.

Meanwhile, Britain's National Westminster Bank confirmed yesterday that it was to buy Sellier SA, another French broking firm, as part of its strategy of expanding investment banking in Europe. Sellier has 150 employees and ranks 12 in terms of stock exchange turnover.

François-Dufour Kervern, with about 150 employees, ranks sixth in combined equity and bond turnover. Its principal shareholder, after the former partners and employees with 40 per cent, is Banque Neuflize Schlumberger Mallet, which will eventually hold 30 per cent.

Two French institutions, the state financial group Caisse des Dépôts and the state-owned insurer Union des Assurances de Paris, will each own 10 per cent, like Nomura.

The stock exchange reform law of last year for the first time allowed outside shareholders in broking firms and European and US securities houses have since taken positions in the French market.

National Westminster's British competitors, Warburg Securities, BZW and James Capel, have made acquisitions, as have Swiss Bank Corporation, J.P. Morgan and Amro Bank.

Japanese banks have been showing a mounting interest in the French financial markets, with Fuji Bank, Sumitomo Bank and Sanwa Bank recently obtaining listings on the Paris stock exchange.

Over two thirds of the Paris broking firms have now announced links of some sort with banks or other financial institutions, ranging from the sale of minority stakes to outright absorption. Other firms are still in negotiation.

It is not thought likely that Nomura will eventually take control of François-Dufour Kervern which, along with Fauchier-Magnan-Durant des Aulnois has received the backing of UAP and the Caisse des Dépôts to remain independent, rather than being wholly absorbed by a bank as happened with firms like Delahaye Ripault, taken over by Société Générale.

Nomura has tended to build up its international operations organically, but last July it departed from this practice and acquired a 20 per cent stake in Wasserstein Perella, the influential New York mergers and acquisitions boutique.

NatWest's French deal, page 34

Battle breaks out over Cambrian

By Nikki Tait in London

A BID battle broke out last night over Cambrian and General Securities, the UK investment trust which was formerly a vehicle for Mr Ivan Boesky, the disgraced Wall Street insider trader. The US Securities and Exchange Commission still holds almost one-quarter of the trust's voting rights.

The bidder is Leucadia, a quoted New York-based company with interests ranging from insurance and banking to real estate and manufacturing. The company, which started to build a stake in the trust this summer, said yesterday that it had bought a further 1.32 per cent voting interest, taking its total holding to 31.23 per cent. Because this breaches the 30 per cent level at which UK takeover rules require a full offer to be made, the company is obliged to bid.

The terms of its offer are 108p for each Cambrian ordinary share and 120p for each capital share, valuing the company at £67.9m ($127m). This compares with net asset backing of 136.3p for the ordinary shares and 189.1p for the capital, as at end-September. But since then the figures are likely to have changed.

The offer met an immediate rejection from Cambrian's current directors – the board changed after Mr Boesky's departure – who said the terms represent discounts of 20 per cent and 36 per cent respectively to the end-September figures.

The net asset value figures, they added, were also struck after significant provisions against litigation and taxation. Cambrian is still embroiled in legal actions resulting from the days of Mr Boesky's involvement.

Last night, Leucadia's London advisers, Hambros, said the US company saw the Cambrian situation as "an investment" – it holds stakes in a number of quoted and unquoted companies – and that when given the opportunity to acquire shares taking it though the 30 per cent barrier, decided proceed with an offer.

Hambros declined to speculate on what the attitude of the SEC might be. The SEC acquired its holding when Mr Boesky handed over his shares in the company to settle charges of insider trading in November 1986. Since then, given the continuing legal action, the SEC has indicated that it was anxious to avoid opening itself to charges of insider trading when disposing of assets obtained under its settlement with Mr Boesky.

Leucadia's offer arrived too late to have much impact on Cambrian's shares. The ordinary closed unchanged at 92p and the capital at 105p.

Lilco faced with threat of multi-billion dollar suit

By Roderick Oram in New York

LONG ISLAND Lighting Company (Lilco) faces the possibility of a multi-billion dollar class action suit that could jeopardise its finances and undermine its efforts to win an operating licence for its Shoreham nuclear power station near New York City.

The latest setback for the embattled utility came in a New York jury verdict that it had deceived regulators about the Shoreham plant. It was found to have twice made false projections about the completion date for the plant in order to win electricity rate increases to pay for its construction.

Suffolk County, which brought the over-charging suit against Lilco, will receive a $7.6m refund and $15.2m in punitive damages.The judge, Mr Jack Weintstein, will decide soon whether to certify it as a class action suit open to more than 1m Lilco customers.

Expert witnesses for Suffolk County, where the Shoreham plant is located, said an adverse class action could cost Lilco more than $4bn, some three times more than its net worth. The utility said it would fight the verdicts.

The new legal difficulties threw grave doubts over Lilco's current strategy towards Shoreham and restructuring its own finances. For more than a year Lilco has been pursuing a twin-track approach to Shoreham, which was completed in 1985 at a cost of $5.4bn but has yet to receive an operating licence because of local opposition.

On one hand, it supported a pact to sell Shoreham to New York State for $1 in return for rate increases over the next decade. Although the New York State legislature refused to endorse the deal last week, there were signs in Albany, the state capital, that legislators might try to revive it in a revised form.

On the other hand, Lilco kept up its efforts to win a licence. Following the political setback in Albany it looked as though it might get a partial licence by the end of the year. But Washington nuclear regulators turned more cautious after the court ruling.

Any further delay in licencing could help drive Lilco back to a political settlement.

On the financial side it had hoped that a Shoreham settlement would return its credit rating to investment grade and allow it to refinance its $4.7bn of debts early in the new year. The money saved on interest payments would enable it to resume paying dividends and catch up on over-due preferred share dividends.

With credit rating agencies unable to re-rate Lilco's debt until its latest legal difficulties are settled, it looks as though the resolution of Shoreham, refinancing and the company's return to fiscal health could be long delayed.

US farming revival puts Deere back on course

By James Buchan in New York

DEERE, the world's largest maker of farm equipment, yesterday reported strong improvements in sales and profits for the fourth quarter to October, thanks to a revival in the US farm belt.

The Moline, Illinois, company also said it expected advances in sales next year as North American farmers plant more land to replenish stocks of grain consumed during this summer's drought.

Deere said yesterday its earnings for the harvest quarter were $80.5m or $1.07 a share, against $32.6m or 48 cents in the 1987 October quarter. Net sales advanced 12 per cent to $1.48bn.

The strong result, which was due to higher production volumes and better prices, helped the company to a record year with earnings of $315.4m, or $4.32 a share.

The 1988 result, which enjoyed a special $69.3m tax benefit, contrasts with a loss of $99.0m in 1987 when Deere was crippled by huge unsold inventories of tractors as farmers suffered a painful adjustment to years of over-planting. Deere also suffered a strike at its main US plants.

Sales in 1988 were up 30 per cent at $4.14bn for the year, on a 34 per cent increase in production.

Mr Robert Hanlon, Deere's chairman, said the company had set initial production schedules for this year at about 11 per cent higher than 1988 output. Two years of improving income for American farmers had "considerably strengthened the financial health of the US agricultural sector," he said.

"The 1988 drought caused a substantial drawdown in US carryover stocks of most agricultural commodities. It appears likely that more than 30m acres idled in the US during 1988 will be brought back into production in 1989.

"Assuming the return of normal weather conditions, these factors should increase farmers' expenditures in 1989, resultingin higher agricultural equipment retail sales."

ENI forecasts record net profits for 1988

By Alan Friedman in Milan

ENI, the Italian state energy group that is in the process of merging its chemical interests with those of Montedison, will achieve record consolidated group net profits this year of more than L1,000bn ($784m).

This is a 43 per cent jump on ENI's 1987 net profits of L700bn. The forecast was made last night by Mr Franco Reviglio, ENI's chairman.

Mr Reviglio, who also predicted technical investments of L19,000bn over the next three years, stressed that the profit comes despite a low price for crude oil. He attributed the 1988 record profits to structural cuts in overheads, more flexibility of production and distribution improvements.

Meanwhile, Ausimont, the US specialty chemicals company in which Montedison holds a 72.7 per cent stake, said a special committee of its board had rejected a revised $35 a share proposal by Montedison to buy out minority shareholders.

Kaufman and Broad to spin off Home operation

By Our Financial Staff

KAUFMAN and Broad, the US manufactured housing, mortgage and life insurance group, is planning a major restructuring which includes spinning off its successful Kaufman and Broad Home operation, and repurchasing up to 5m of its common stock.

Under the plan the Los Angeles-based parent company will be renamed Broad Incorporated. It will be a financial services company with assets of about $7bn and $200m in cash and marketable securities.

Kaufman and Broad Home, the house-building operation, was earlier this year described by Mr Eli Broad, chairman, as the group's brightest profit centre. It has been performing strongly, while the financial services business has been hampered by lower investment income.

The 92 per cent owned house-building business will continue to operate in California, where it is the largest single-family home builder, and in France, where it has three operations providing homes for first-time buyers and executives-style houses. The unit also operates in Canada but California and France together provide more than 80 per cent of sales.

The group said it planned a tax-free distribution to its shareholders of 0.75 shares of Kaufman and Broad Home common stock for each Kaufman and Broad share held.

The company also plans to acquire, through one or more of its life assurance subsidiaries, 817,500 shares of a new Kaufman and Broad Home $12 exchangeable preferred stock, and 10-year warrants to buy 7.5m shares of a new class of Kaufman and Broad Home common stock with lower voting rights, for $81.8m.

For the nine months to August 31, Kaufman and Broad reported net income of $32.7m or $1.03 per share, on $1.5bn in revenues.

French group in cables deal with Générale unit

By Tim Dickson in Brussels

CABLES de Lyon, a French company which runs Alcatel's global cables business, announced yesterday that it has concluded a complex BFr1bn ($27.7m) deal with Union Minière which will give it a dominant role in the Belgian cable sector.

The move is another sign of the management shake-up at Société Générale de Belgique, the powerful Belgian holding company which is 100 per cent owner of Union Minière. It is also further evidence of the way French industry has been eyeing up Belgium as a key market for expansion in the run up to 1992.

Under the deal Union Minière and its subsidiary, Metallurgie Hoboken-Overpelt (MHO), will cede their 55 per cent interest in Cableries de Dour to Financable, a Belgian holding company in which Union Minière holds 50 per cent. However, Cables de Lyon is to acquire a majority interest of 60-70 per cent in Financable via a capital increase to which Union Minière will not subscribe.

By acquiring Dour, at a price of BFr14,800 per ordinary share, Financable also acquires the cableworks, Kabelfabriek van Huizingen (Fabricale), another major Belgian cable group which after a recent takeover is 92 per cent controlled by Dour.

Since Financable holds 50 per cent of the capital of Société Nouvelle des Cableries de Charleroi, Cables de Lyon will effectively control three of Belgium's four major cable businesses with joint sales of around BFr10bn.

Cables de Lyon said it aims to establish a "successful Belgian cable activity which would play a leading role in the European market."

In a separate move yesterday Acec, the ailing electrical and electronics company which is 65 per cent controlled by La Générale, agreed to sell its Ghent-based steam turbine and gas expanding factory to Asea Brown Boveri, the Swiss-Swedish engineering group, for an undisclosed sum.

The activities, which employ about 150 people and represent turnover of about BFr450m, were considered too small by Acec to be viable over the longer term on their own.

Royal Bank of Canada well up

By David Owen in Toronto

ROYAL BANK of Canada, the country's largest chartered bank, yesterday reported an impressive 69 per cent increase in fourth-quarter earnings, due to higher securities commissions and much improved returns from core businesses.

In all, net income for the latest period totalled C$221.1m (US$187.3m) or C$1.49 a share, compared with C$131m or 92 cents a year earlier. This pushed profit for the full year ended October 31 to C$712.3m or C$4.83 a share, against a loss of C$287.7m in 1987.

The year-ago figure included a special after-tax provision of C$800m, relating to an increase in reserves on loans to troubled Third World countries. Excluding this charge, full year 1988 earnings were up 39 per cent on the prior year.

In the latest quarter, net interest income rose a sharp 43.7 per cent from a year ago, with just over half of the increment arising from a substantial reduction in provision for loan losses.

For the full year, net interest income was ahead 23.9 per cent, with other income rising by 19 per cent. Exactly half of the improvement in other income was attributed to higher securities commissions, the lion's share generated by RBC Dominion Securities, which was acquired in March.

Higher earnings were despite the addition of a further C$360m to the bank's LDC loan loss provisions. These now stand at C$2.3bn, or 45 per cent of exposure.

The bank's international operations continue to underperform, however.

French staff agency sees 70% rise

By George Graham in Paris

ECCO, France's leading temporary employment agency, expects net profits this year to rise 70 per cent to FFr330m ($56m), with turnover up 35 per cent to FFr8.19bn.

Mr Philippe Foriel-Destezet, group chairman, said that besides exceptional profits of FFr94m, Ecco's results had improved this year by 33 per cent to FFr236m, with earnings from the main temporary employment division up 56 per cent to FFr142m.

The Lyon-based group has improved its share of the French temporary employment market by 2 percentage points to 15.35 per cent over the last four years, Mr Foriel-Destezet said. Over the same period it has nearly doubled its market share in the Paris region to 7.72 per cent.

The strong upturn in French economic activity this year led to a sharp increase in demand for temporary staff.

The market is highly competitive, however, said Mr Philippe Beauviala, Ecco's managing director, adding that next year the group aimed to restore its gross margins from their current low level of 16.7 per cent.

Besides temporary employment, which accounts for nearly three quarters of Ecco's activity in 1988, the three diversification sectors of industrial cleaning, security services and consumer finance all improved their earnings.

IBM unit president defects to Xerox

By Louise Kehoe in San Francisco

INTERNATIONAL Business Machines, the world's largest computer maker, has announced a management shake-up at its entry systems division, which is responsible for personal computers, and the formation of a new division that will focus on the fast-growing market for computer workstations.

Mr William C. Lowe, formerly president of the entry systems division, has resigned to join Xerox Corporation as executive vice president in charge of planning, development and manufacturing. His departure was seen as unusual among senior IBM executives and may reflect dissatisfaction with the division's performance, industry analysts said.

IBM has consistently countered analysts' comments on slower than anticipated sales of its Personal System/2 line of personal computers with claims of the new range's success. However, IBM has lost significant US market share to competitors, the analysts said.

Mr James A. Cannavino, IBM vice president, has been named to replace Mr Lowe as president of IBM entry systems. He was previously president of IBM data systems.

Advanced workstations, the new division, will be headed by Mr Nicholas M. Donofrio, who was vice president of development at IBM entry systems.

The new division is seen as a move to focus increased attention on the computer workstation market – currently dominated by Sun Microsystems, Digital Equipment, Hewlett-Packard and Apollo Computer.

Chairman named for Continental Airlines

MR D. JOSEPH CORR, who until last month was president of Trans World Airlines, has been elected chairman and chief executive of Continental Airlines, a unit of Texas Air, reports AP-DJ.

He replaces Mr Frank Lorenzo, who remains chairman of Texas Air. Mr Martin Shugrue remains Continental president.

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INTERNATIONAL COMPANIES AND FINANCE

Possibility of banks merger raised again

By **Andrew Fisher** in Frankfurt

A QUESTION mark was again raised over a possible merger between Hessische Landesbank (Helaba) and Westdeutsche Landesbank (WestLB) yesterday with the news that discussions would be broken off while the ownership structure of Helaba was changed.

Frankfurt-based Helaba is owned by the State of Hesse and the Hesse savings bank association. However, the state government wants to give up its half share to the savings body, which yesterday said it was ready to take over the stake and inject up to DM400m ($230m) of capital.

Mr Manfred Kanther, Hesse's Finance Minister, said the state wanted to use its funds for purposes other than setting up a large bank. The transfer of its share needs parliamentary approval, which will take a few months.

WestLB, based in Düsseldorf and owned by the state of North Rhine-Westphalia and the regional savings body, said it was interested in a merger with Helaba, but would study alternatives such as increasing its capital or strengthening its presence in Frankfurt.

The Hesse savings bank association said the change of Helaba's ownership had to be completed before merger talks with WestLB could be renewed. It stressed it could only consider a partnership solution with WestLB.

● Bayerische Hypotheken- und Wechsel-Bank (Hypo-bank) said yesterday it expected parent net profit this year to match 1987 levels of DM209.1m, despite a fall in 10-month parent-company partial operating income to DM657.4m from DM729.4m, writes Our Financial Staff.

Partial operating income means net interest and commission earnings after expenses but before trading income. Hypo-bank also said it would probably keep its 1988 dividend at DM12.50 per DM50.

Mr Eberhard Martini, chairman of the Munich-based mortgage and commercial bank, said a sharp gain in securities and foreign exchange trading profit during the period made up for lower after-expense earnings in the banking and brokerage businesses.

The secret is in the mix for Germany's brightest

Peter Marsh looks at chemicals group Henkel

Helmut Sihler: about right with diversification

Any company which in its annual report lists a Mr Franz Kafka among its senior management can be expected to be a shade enigmatic.

The description certainly applies to Henkel, a Düsseldorf-based maker of speciality chemicals, cleaning agents and toiletries which expects this year to have annual sales above DM10bn ($5.8bn).

Mr Helmut Sihler, Henkel's chief executive, admits that many onlookers find his company's mixture of businesses difficult to understand. "From the inside they make sense," he says firmly.

Henkel has been growing quickly in recent years, mainly because it has spent DM5bn since 1983 on a large number of fairly small acquisitions in its different business areas. It expects sales and post-tax profits for 1988 to be at least 10 per cent up on last year's figures of DM9.3bn and DM292m respectively.

This performance makes Henkel West Germany's fourth biggest chemicals company, behind Hoechst, BASF and Bayer. However, Mr Sihler hates being categorised in this way. "We don't want to be known as the fourth biggest but as the brightest," he says.

Although outsiders sometimes, as Mr Sihler says, believe Henkel is a little too widely spread for its own good, he believes that the different divisions of the company have a lot to gain from each other. "The diversification is about right for us," he says.

Henkel is best known – at least in Germany, the Netherlands, Belgium and Switzerland where it makes and sells the Persil washing powder – as a detergent company. In France and Britain, however, Persil is sold by Unilever, the Anglo-Dutch giant. As a result of this, the name Henkel is relatively unfamiliar in the UK and is frequently confused with the Luftwaffe's Heinkel bomber which saw service during the Second World War.

The company's detergent sales, which contributed about a third of Henkel's turnover last year, put it in the top three detergent makers worldwide, behind Unilever and Procter & Gamble of the US.

Henkel has expanded significantly in recent years in the area of industrial-cleaning and hospital-hygiene products, a field with obvious links to detergents.

A further part of the company's activities is industrial and consumer speciality chemicals, which account for about one-sixth of sales and include products such as adhesives, construction chemicals and materials used in home maintenance by do-it-yourself enthusiasts.

The company has made particular progress in adhesives, where it claims to be the world's biggest manufacturer – it has a 25 per cent share in Loctite, the US industrial glue maker. Mr Hans-Otto Wieschermann, Henkel's chief financial officer, says his company has about a 10th of the $11bn world market in these products. The market is expanding rapidly mainly because of the increased application of glues in manufacturing processes such as car assembly.

Henkel's fourth sales division covers toiletries and cosmetics, an area which accounts for just 7 per cent of sales and where Henkel, although strong in this field in West Germany, is about 15th in the world league table. Mr Sihler makes no secret about his lack of satisfaction with this position.

It is thought that Henkel will either try to make a big purchase in this area – one option might be to buy part of the toiletries operations of Beecham of the UK although the company says these are not up for sale – or will get out of this field altogether.

Adding to the complexity of Henkel's business is the company's fifth division which accounts for nearly 30 per cent of turnover and covers basic industrial materials such as fatty chemicals, caustic soda and soda ash.

The key here is production of fatty chemicals, an area where Henkel believes it is the world's biggest manufacturer.

Fatty chemicals encompass a range of products based largely on natural compounds such as coconut oil and which are important intermediates in many of the cleaning agents and toiletry products which Henkel sells.

Henkel believes its high degree of vertical integration in this respect gives it an edge on some of its rivals which have to buy in more of their raw materials. The fact that Henkel has control over many of the raw materials for its detergents may be one reason why, according to Mr Sihler, profit margins in Henkel's detergents division are "very satisfactory" and better than at any time since the early 1970s.

Henkel gains about a third of its sales in West Germany, with nearly half coming from the rest of Western Europe. This state of affairs, says Mr Sihler, should put the company in a strong position to take advantage of any general freeing in trade that arises from the planned liberalisation of the European Community market after 1992.

Sales in North America – which accounted for less than 10 per cent of turnover last year – are less satisfactory, although Mr Sihler hopes to see some growth there largely as a result of some of the companies Henkel has bought in recent years.

Not everything has turned quite according to plan for the German company. It recently lost out in an auction for Panigal, an Italian family-owned detergents and foods group, which Henkel wanted to buy as part of its plan for making further inroads into the Italian market. Panigal was eventually snatched from Henkel's grasp by Benckiser, a privately-owned West German chemicals group which paid $127m for the purchase.

Despite this rebuff, which came about after Henkel refused to raise its offer for the company, Mr Sihler says he is committed to keeping up Henkel's growth momentum. "If you don't expand you lose equilibrium and you find it more difficult to attract good people. In the end you may lose out."

He says that over the next decade he wants Henkel's sales and profits to double at least. Although some analysts have trouble accepting that Henkel's diverse mixture of businesses can expand at this rate, given the company's good record in recent years they may be inclined to give Mr Sihler the benefit of the doubt.

Romiti gives up presidency of Fiat subsidiaries

By **Alan Friedman** in Milan

MR CESARE Romiti, chief executive of Italy's Fiat group and the man who has taken over the presidency of the group's Fiat Auto car division, has stepped down from the presidency of two Fiat subsidiaries active in the financial services and components sectors.

Mr Romiti will be succeeded at Fidis, the financial services company, by Mr Francesco Paolo Mattioli, a key Fiat financial executive, and at Gilardini, the industrial components subsidiary, by Mr Carlo Callieri, another central Fiat manager. Both are two of Mr Romiti's key lieutenants.

Mr Romiti, in addition to his group and car division responsibilities, remains chairman of Gemina, the investment company that controls the Rizzoli-Corriere della Sera publishing group and holds a strategic minority stake in Nuevo Banco Ambrosiano, the private bank.

Fiat is Gemina's largest single shareholder. Mr Romiti also remains chairman of SNIA-BPD, the Fiat group's chemicals, arms and textiles company.

Mr Gianni Agnelli, Fiat chairman and controlling shareholder, named Mr Romiti on November 25 to succeed Mr Vittorio Ghidella as chairman of Fiat Auto after Mr Ghidella resigned because of disagreement with Mr Romiti.

Since then many analysts have criticised the decision, saying that Mr Romiti is an able financial man but Mr Ghidella is the car expert who has guided Fiat Auto's successful growth over the past decade.

Deutsche Bank censured

By **David Goodhart** in Bonn

THE WEST German shareholder protection organisation, the DSW, is threatening to take Deutsche Bank to court over the bank's refusal to honour the DM135m ($78m) worth of Klöckner and Co profit-participation notes after it took over the company in October.

The bank said after the takeover – triggered by huge losses in oil forward contracts – that while it was under no obligation to pay anything to the note holders, their interests would be considered "with special care" at a later date.

The DSW, whose president is the Count Otto Lambsdorff, leader of the Free Democratic Party, is not known for aggressive campaigning, but it may be able to persuade the bank to make a more definite commitment to the note holders.

Deutsche Bank is extending its influence through the Klöckner empire by appointing Mr Hilmar Kopper, a member of the bank's board, as chairman of Klöckner-Humboldt-Deutz, the publicly-quoted diesel and farm machinery group.

KHD is independent of Klöckner and Co, but the latter holds a 40 per cent stake in it. Mr Kopper replaces Mr Christian Peter Henle who had earlier resigned from the Klöckner and Co board too.

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INTERNATIONAL COMPANIES AND FINANCE

Conflicts that made merger a priority

By Norma Cohen and Stephen Fidler

MR RAINER GUT, chairman of Credit Suisse, at first resisted the idea of combining First Boston and Credit Suisse First Boston when it was discussed in late October 1987, arguing that the growing conflicts between the two firms could be ironed out by changing the terms of their operating agreements.

However, Mr Peter Buchanan, chairman of First Boston, insisted the strain could only be eased if the two firms merged. In repeated discussions between October 1987 and May 1988, the firms considered several solutions only to abandon them quickly.

No merger proposal appeared acceptable, no revision of operating agreements looked workable, while a complete divorce of the two companies' operations would be harmful to both.

Among other things, First Boston would not agree to any merger in which CSFB remained the controlling shareholder unless the new combined company also offered to buy up the shares of all First Boston's public investors at a fair market price.

A history of the merger agreement between the firms is contained in the proxy statement for shareholders filed with the US Securities & Exchange Commission. Shareholders will vote on December 22 on a merger proposal that will combine CSFB and First Boston into a single, privately held company. Those tendering shares will receive $52.50 per share in cash.

By March 1988, the Credit Suisse part of the group – later to express a wish to avoid an "unacceptable" investor taking a stake in First Boston – had come around to the view that "the highest priority" should be given to working out an acceptable merger agreement.

In March, representatives of First Boston held talks with a unnamed private investor, which were subsequently aborted. As late as April, the firms considered a divorce.

The statement also details the proposed compensation for management. Management will receive 25 per cent of voting shares in the new company, 25 per cent of non-voting shares to be valued at $62.9475 each (a $13.46 premium over their book value), $108.6m in junior subordinated notes, $60.4m in cash and the assumption of or repayment of $127.2m in loans previously incurred by management for the acquisition of management interests.

Mr Buchanan, the new firm's president and chief executive officer, will receive 95,197 voting shares, $11.5m in subordinated notes and $5.0m in cash. Mr John Hennessy, who will replace him, receives 95,197 voting and the same amount of non-voting shares, $8.3m in notes and $1.66m in cash. Mr William Mayer, who will head the US arm of the operation, receives the same as Mr Hennessy in shares together with cash and notes. Mr Hans-Joerg Rudloff, head of the London-based operations, receives 95,175 non-voting shares, $5m in notes and $271,600 in cash.

• Financière CSFB's investment banking revenues fell significantly in the first nine months of this year, the proxy statement shows. Investment banking revenues dropped to $74.7m in the first nine months from $195.7m last time. Net revenues of its trading operations rose to $154.3m from $115.2m in the same period in 1987, a poor year. Net income was $103.1m, compared with $151.2m.

Botswana realises 22-year dream

A $456m soda ash mining project at Sua Pan is being refloated after years of political haggling. The venture is being undertaken jointly with AECI, a South African chemicals producer. Nicholas Woodsworth reports

Like the cars which drive over the crystallised surface of the Sua Pan brine deposits in central Botswana and occasionally break through to disappear into the salty solution below, a project to establish a big mining industry at Sua Pan has for many years been skating on thin ice.

The project seemed more than once to have sunk for good. Now it has finally been refloated and a $456m joint venture was put together last month to extract sodium carbonate from the vast Southern African deposits.

Sodium carbonate, or soda ash as it is commonly called, is a compound used in making glass, paper, and steel. It can be processed both synthetically and from natural deposits, and is manufactured in many countries.

What makes the Sua Pan project worthy of note is that it is being jointly undertaken by the Government of Botswana, a country firmly committed to the anti-apartheid priciples of the front-line states, and AECI, a leading South African chemicals producer.

This is not the first time a South African company has entered into a large-scale venture with the Botswana Government. Indeed, virtually the entire economy of Botswana – one of the wealthiest non-oil exporting countries in Africa – is based on an equal partnership between its Government and De Beers, the South African diamond mining giant.

Botswana diamonds mined using De Beers equipment and expertise gives Botswana 75 per cent of its export earnings and De Beers 54 per cent of its mining profits.

The establishment of Soda Ash Botswana (SAB) is a big step, however, in the development of interdependence between the two countries. Until now Botswana has served mainly as a market for South Africa and for the channelling of South African goods to other black African states. Now for the first time a number of important South African industries will depend on importing about 250,000 tonnes of soda ash from Botswana annually.

From Botswana's point of view the project is also critical. Studies have indicated that SAB could increase Botswana's export earnings by 50 per cent. This would go a long way, as diamond production levels out, in sustaining Botswana's annual average growth rate of 13 per cent over the last 15 years.

It would also reduce its almost total dependence on the diamond industry.

What it will not do is allay domestic and regional fears of growing vulnerability to South African political pressure, particularly on economic sanctions.

The political sensitivity of the soda ash project has long delayed its inception. Numerous attempts to set up a plant after independence in 1966 had failed.

By 1984 a subsidiary of British Petroleum had made some progress, but pilot studies indicated that unless Botswana had guaranteed access to the South African market, the project would be threatened by the US dumping of soda ash in South Africa and therefore economically unviable.

While Botswana is a leading member of SADCC, a regional grouping of black African states committed to reducing economic dependence on South Africa, it is also a member of the South African Customs Union (Sacu), an anomaly it excuses as unavoidable.

In 1984 BP was informed that under Sacu agreements South Africa was willing to give the Botswana project protection from outside competitors, but only if Botswana were willing to sign a mutual non-aggression pact of the type South Africa had signed with Mozambique at Nkomati. Botswana argued that such a pact would damage its relations with other SADCC states, and the project was shelved.

By 1986, however, with the prospect of US sanctions looming nearer, South Africa had warmed once again to the Sua Pan project. A decision by Anglovaal of South Africa not to go ahead with a synthetic soda ash plant also increased the project's viability. Late that year AECI approached the Botswana Government on the purchase of BP's interest in the concern.

Last year Mr Pik Botha, the South African Foreign Minister, visited Botswana and gave the project his blessing without further insistence on a non-aggression pact.

Under negotiations now nearing completion, the BSA plant construction contract at Makgadikgadi will be awarded to LTA Construction, part of Anglo American of South Africa, and Uhde, a West German company.

The project will also require the building of a 160km railway link to Francistown in eastern Botswana to transport an estimated 300,000 tonnes of soda ash and 700,000 tonnes of salt annually.

Under the same agreement AECI will have a 52 per cent majority shareholding in SAB. The Botswana Government will hold 48 per cent, but it has approached both the World Bank's International Finance Corporation and the Commonwealth Development Corporation as potential partners. For its part AECI is reportedly negotiating with Anglo American, which is one of its shareholders, in a search for direct equity participation.

While South Africa will now rely to some degree on Botswana, the relationship remains unequal. The strength of South Africa's hold on its neighbour's economy is well illustrated by the fact that final signing of the agreement was held up by Anglo American, which is pushing hard to have a wide range of SAB-related subcontracts awarded to its subsidiaries.

Whether or not it is successful in keeping these contracts from going out to world tender, the soda ash project can only increase Botswana's already considerable dependence on the expertise, the material, and the finance of South Africa.

CRA gives shareholders surprise special payout

By Bruce Jacques in Sydney

CRA, THE Australian mining group, and its 67 per cent-owned Comalco subsidiary have given investors a surprise early Christmas present by announcing special dividends which will be tax-free in most shareholders' hands under the country's dividend franking legislation.

CRA will pay 4 cents a share and Comalco 2.9 cents with both amounts due on December 29.

The directors of CRA said yesterday that the dividends would exhaust both companies' franking accounts and that they had decided to make the one-off payouts because the Australian corporate tax rate is falling from 49 per cent to 39 per cent, commensurately reducing the value of future franking credits.

The payouts were a surprise because CRA said, when announcing half-year results in September, that it had used virtually all available franked income paying the final 1987 dividend. "There will be no significant addition to franked income in calendar 1988," it said then. "Because of the lack of franked income, CRA is unable to pay any further franked dividend in 1988."

Last month the company paid an unfranked interim dividend for the June half of 18 cents a share, and Comalco is due to pay an interim dividend of 12 cents a share on January 5. Neither payout is affected by the latest distribution.

Receivership ends Judge directors' fight to survive

JUDGE CORPORATION, a New Zealand investment company, was placed in receivership yesterday in a move which appears to spell the end of the company's struggle to survive after it was decimated by the October 1987 stock market crash, AP-DJ reports from Wellington.

Under the control of financier Mr Bruce Judge it had been one of New Zealand's fastest growing companies. The directors said yesterday they regretted being unable to "salvage some value" from the company for its shareholders.

Judge Corporation's share price rose to a high of NZ$9.50 in 1987 but fell to 4 cents after the market collapse. Recently the New Zealand Stock Exchange took steps to remove it from public listing for failing to produce accounts.

Its main secured creditors – Bank of New Zealand and NZI Securities, a subsidiary of the NZI insurance and banking group – have appointed accountants KMPG Peat Marwick as receivers.

It is not known how much Judge Corporation owes Bank of New Zealand and NZI, which is itself 51 per cent owned by General Accident of the UK.

Judge's directors, who have resigned, said legal advice indicated they could challenge the appointment of receivers but this could only produce "a pyrrhic victory unless it achieved a residual value to shareholders."

INTERNATIONAL CAPITAL MARKETS

Job losses in City unsettle dealers

By Dominique Jackson

MORGAN GRENFELL'S news that it was pulling out of market making with the concomitant loss of 450 jobs sent tremors through the Eurobond market yesterday as dealers who had been settling into a traditionally slack pre-Christmas period were set to wondering which leading house would be next with extensive redundancies.

"The (Morgan Grenfell) announcement has shaken the foundations of the market. Although not a surprise, it still comes as very sad news and is bound to lead to further significant moves, now that such a solid institution has been the first to admit these sort of cuts are necessary," one senior official and veteran of the market said.

One sector of the market unlikely to be severely affected by possible cutbacks and, indeed, appears to be benefiting from recent injections of resources in the shape of new market makers, is the Japanese equity warrant sector. It is thriving as the Tokyo stock market goes from strength to strength.

Despite an oversupply crisis in the early summer, the market has now regained its confidence and has proved to be one of the few reliable generators of income for many houses this year. There have also been several reports to date that profits made in the sector have been diverted to subsidise other areas of some banks' business, notably financial engineering.

A protracted pause in issuance which was triggered by the first announcements of Emperor Hirohito's ill health

INTERNATIONAL BONDS

has fanned investor demand for the paper and tight supply is ensuring a warm reception for the vast majority of new issues.

As more companies tap the sector, this demand could tail off with a similar drop in premium levels.

Nevertheless, new deals from companies in prize sectors such as steel still command grey market prices as high as 107 or 108, seen yesterday for Nomura's $120m four-year issue for Tokyo Steel. The day's other two deals, for consumer credit companies Life and Daishinpan, via Nikko and New Japan respectively, were also bid within the level of their total fees although they did not carry the steel cachet.

Dealers said the latest crop of new issues were seeing a high level of interest from an encouragingly broad spectrum of investors, particularly some retail accounts. Other traders noted that many funds were still underweight in Japanese equities and were using the warrant sector to gain fairly straightforward access to the market.

The advent of Merrill Lynch to the sector was widely welcomed by other market makers, who commended the US house for doing its homework before entering the sector.

Most existing players believe the sector would benefit from a few more additions, particularly of leading houses, who are expected to add welcome capital and stability to the sector.

The market appears to have swung back into action from the reverential torpor into which it tumbled when the Emperor fell ill.

Reports of his condition are still closely monitored, however, and particular scares, such as the one which hit the market on Monday, have had a marked effect on volumes.

However, dealers noted that the impact appeared to be diminishing with the passage of time. Although the new issue calendar is apparently still looking fairly full, a Nomura official said the Tokyo Steel deal would be its last in the sector this year. Most other dealers said they would be surprised to see a rush of new paper before Christmas.

Elsewhere in the market, three new Australian dollar deals emerged to a mixed reception. Yields in the Australian government bond sector have picked up somewhat lately, making swap rates look marginally more attractive and yesterday saw the first 15 per cent coupon to emerge for some months in a sector which is largely retail-oriented and thus coupon-driven.

It was reportedly this 15 per cent coupon which assured the success of the day's most popular issue, a A$50m three-year deal for the State Bank of South Australia, one of the richest states in the Commonwealth.

Yesterday, it was tapping the market in a new guise as the Finance Company of South Australia following internal restructuring. CCF in Paris was the lead manager on the deal on which syndication was completed swiftly. This included banks with proven placement capabilities in the Benelux countries and West Germany, at whose retail accounts the deal was directly targeted.

The deal carries the guarantee of the Beneficial Finance Corporation which is also a wholly owned subsidiary of the State Bank of South Australia.

Although this was not a familiar structure, it did not seem to deter investors and the deal was well bid within its total fee level all day.

The day's other two deals in the sector did not see the same level of interest, however.

Eurofima, the European agency for the financing of railway stock, issued A$45m worth of four-year bonds via DBCM on which the coupon was set at 14 per cent. Terms were considered fairly tight by syndicate managers at houses not involved in the deal. Nevertheless, it was expected to be placed largely through the lead managers retail branch network.

This was also expected to be the case for the day's other issue for Primary Industrial Bank of Australia through WestLB. One dealer noted that PIBA was no longer the credit it used to be, now that it was no longer owned by the state banks.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees	Book runner
US DOLLARS						
Life Co. Ltd.♦	80	(5¼)	100	1992	1½/⅜	Nikko Secs.(Europe)
Tokyo Steel Co. Ltd.♦	120	(4⅞)	100	1992	1½/⅜	Nomura Int.
Daishinpan Co.♦	100	(4¾)	100	1992	2¼/1½	New Japan Secs.
AUSTRALIAN DOLLARS						
Fin.Co.of South Australia♦	50	15	101.6	1991	⅞/1½	CCF
Eurofima♦	45	14	101⅛	1992	1/½	Deutsche Bk.Cap.Mkts
PIBA♦	75	14½	101½	1992	1/½	WestLB Girozentrale
CANADIAN DOLLARS						
CIBC♦	75	11¼	101.35	1991	⅝/½	Wood Gundy
D-MARKS						
CS Finance Guernsey♦	200	5⅞	101⅝	1994	1¼/⅜	CSFB-Effectenbank
Trinkaus & Burkhardt Fin.♦	75	8½	101	1993	n/a	Trinkaus & Burkhardt
SWISS FRANCS						
Final terms fixed on:						
Daito Seiki Co.(a)**§♦	60	½	100	1994	n/a	Banca del Gottardo
LUXEMBOURG FRANCS						
EIB**♦	300	7¼	100¼	1994	n/a	Banque Paribas (Lux)

**Private placement. §Convertible. ♦Final terms. ‡With equity warrants. (a)Coupon fixed as indicated. Put option on 31/3/91 reduced by ⅞ to 107 to yield 3.486.

FT INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Closing prices on December 6

US DOLLAR STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Abbey National 7½ 92	200	†93¼	93¾	+0⅛	−0⅛	9.95
Amer. Brands 8⅞ 92	150	*†95¼	95¾	0	+0¼	10.48
A/S Eksportfinans 7¼ 92	150	93¼	93⅝	+0⅛	0	9.79
Barc. Bk. Fin. 10¼ 89	200	*†100⅝	100⅞	0	+0⅛	9.30
B.F.C.E. 7 92	150	92⅜	92⅞	0	−0⅛	9.67
Brit. Tel. Fin. 9⅜ 98	250	97⅞	98⅜	+3	+3	9.67
Cal.Natl.Telecom 8½ 93	160	*†96	96	0	+0½	9.68
Canada 9 96	1000	98	98½	+0¼	+0⅜	9.33
Canadian Pac 10⅞ 93	100	†101½	102½	0	0	10.14
C.C.C.E 9¼ 95	300	98	98½	−0⅛	0	9.62
C.N.C.A 9⅜ 93	150	99	99⅜	+0⅛	+0⅛	6.59
Credit Lyonnais 9 91	200	†99¼	99⅞	−0⅜	+0⅞	9.15
Credit National 8¼ 93	200	95	95⅜	0	+0⅛	9.64
Credit National 7⅞ 92	100	93½	94	+0⅛	−0⅛	9.60
Credit National 7¼ 91	150	†93⅞	94⅜	+0⅛	+0⅛	9.57
Dai-Ichi Kan 9⅝ 92	150	99½	100⅛	0	−0⅛	9.68
Denmark 7⅛ 92	500	92¾	93⅜	+0⅛	0	9.72
E.E.C. 7 91	100	93½	94	0	0	9.50
E.E.C. 7¼ 93	250	92¼	92¾	+0⅛	+0⅛	9.46
E.E.C. 8 90	350	97⅝	98⅛	+0⅛	+0⅛	9.40
E.I.B. 7⅝ 93	100	91⅞	92⅜	−0⅛	−0⅜	9.67
E.I.B. 9⅜ 97	150	98¼	98¾	0	−0⅛	9.62
Elec. De France 9 98	200	95½	96	−0⅛	0	9.70
Finland 7⅞ 97	200	89⅜	90	+0⅛	0	9.77
Finland 7½ 93	200	92	92⅜	0	+0⅛	9.62
Finn.Exp.Cd. 8½ 92	200	96½	97	0	0	9.68
Ford Motor Credit 8 91	250	†96	96½	0	−0⅛	9.87
Gen Elec Credit 10¼ 00	200	†100	100½	0	+0⅛	10.19
Gen.Mtrs.Corp. 9⅛ 92	200	98¼	98¾	+0⅛	+0⅛	9.60
Halifax BS 9½ 93	200	†98⅝	99⅛	+0⅛	+0⅛	9.79
IBM Credit Corp. 8⅞ 91	250	98⅝	99⅛	+0⅛	+0⅛	9.32
Italy 9 90	1000	†99¼	99¾	0	−0⅛	9.27
Lib. Mutual Cap. 9⅛ 93	150	†98¾	99¼	+0⅛	+1½	9.38
L.T.C.B of Japan 8 91	100	95⅝	96⅛	−0⅛	−0⅛	9.78
L.T.C.B.of Japan 8 97	200	89¾	90⅜	−0⅛	+0⅜	9.84
Mercds-Benz Cd. 8½ 95	100	*†95	95	0	+0½	9.59
Metropolis Tokyo 9½ 93	200	99⅞	100⅜	0	+0⅛	9.45
Morgan Guaranty Tst. 7 90	150	†96½	97	0	0	9.80
Nippon Tel.&Tel. 9⅜ 98	250	98	98½	+0⅛	+0⅛	9.65
Norway 8¼ 93	500	97	97½	0	−0⅛	9.54
Portugal 8¼ 91	300	†96⅞	97⅜	+0⅛	+0⅜	9.67
Prudential Crp. 8⅞ 94	125	96¾	97⅜	0	+0⅛	9.44
Qantas Airways 10⅜ 95	140	102⅝	103⅛	+0⅛	−0⅛	9.74
Rep. of Italy 9½ 95	1000	99⅛	99⅝	+0⅛	−0⅛	9.62
Saskatchewan 10¾ 92	100	103⅛	103⅝	+0⅛	+0⅛	9.46
State Bk S Aust 9¼ 93	100	98⅛	98½	0	0	9.76
Sumitomo Bank 9⅝ 92	150	99¾	100¼	+0⅛	−0⅛	9.60
Swed Exp Cred 7¼ 91	100	†93⅞	94¼	+0⅛	+0⅛	9.62
Swed Exp Cred 10 92	100	*†100¼	100¾	0	+0⅛	9.69
Sweden 7 91	250	93⅞	94⅜	+0⅛	−0⅛	9.49
Sweden 7 92	250	†93	93½	0	+0⅛	9.54
Sweden 8¾ 96	200	95⅜	95⅞	0	+0⅛	9.59
Sweden 8½ 92	200	†97¼	97⅝	0	−0⅛	9.34
Victorian Rep 11⅛ 92	150	105	105⅜	0	−0⅛	9.74
World Bank 7 92	300	†93	93½	0	−0⅛	9.57
World Bank 9 97	300	96⅝	97⅛	+0⅛	+0⅛	9.53
Yasuda Trust Fin 8½ 93	100	†95	95½	+0⅛	+0⅛	9.81

Average price change... On day +0⅛ on week +0⅛

DEUTSCHE MARK STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Asian Dev. BK. 6 94	200	102	102⅝	+0⅛	−0⅛	5.55
Avis Fin.SVS 5⅞ 92	100	101⅛	101⅞	0	+0⅛	5.35
Bank of Tokyo 5¾ 93	100	100⅞	101⅛	+0⅛	−0⅛	5.47
Central BK. Turkey 7 92	200	103¾	104¼	0	0	5.79
Commerzbank o/s. 5⅜ 93	300	100⅞	101⅛	0	−0⅛	5.09
Degussa Int. 6⅛ 97	200	101⅜	102⅛	+0½	+1⅛	5.85
E.I.B 5½ 98	150	95½	96⅛	−0⅛	+0⅛	6.10
E.I.B 6 97	300	99¼	99⅞	0	−0⅛	6.08
E.I.B. 6⅛ 96	300	100½	101⅛	−0⅛	−0⅛	5.99
E.I.B. 6⅛ 97	400	100	100⅜	+0⅛	+0½	6.06
E.I.B. 6⅞ 95	300	104¼	105⅜	−0⅛	+0⅛	5.97
Euro.Coal& Steel 5⅞ 97	175	98⅜	99	−0⅛	−0⅛	6.09
Eurofima 6¼ 96	100	101⅜	102	+0⅛	+0⅛	5.97
Elec De France 5⅞ 97	300	98⅞	99½	+0⅛	+0⅜	5.88
Forsmark Krtg. 5⅛ 93	200	98¼	98⅞	0	+0⅛	5.53
I.A.D.B. 6 97	200	99¼	99⅞	0	0	6.07
Japan Dev. Bk. 5⅞ 95	300	98⅜	99⅛	0	+0⅛	5.61
Japan Finance 5¾ 97	100	97½	98⅛	−0⅛	+0⅛	6.10
Ireland 6½ 97	300	101	101½	0	+0⅜	6.30
Malaysia 6¼ 94	150	99⅝	100⅛	+0⅛	+0⅛	6.24
Nat. West BK. PLC 6 98	300	97⅞	98⅛	0	−0⅛	6.32
N.H.L. Finance 6¼ 95	200	†98½	99	0	−0⅛	6.48
Nippon Telg.&Tel. 6 95	400	101½	102⅛	+0½	+0⅛	5.97
Oesters. Kontbk. 5 93	300	98⅜	99	0	−0⅛	5.34
Portugal 5¾ 92	150	101⅛	101⅞	0	0	5.28
Portugal 6⅞ 95	150	102½	103⅛	+0⅛	+0½	6.10
Privatbanken 5¼ 93	150	98½	99¼	+0⅛	+0⅜	5.55
Royal Insurance 5½ 92	300	100⅞	101¼	−0⅛	−0⅛	5.15
Soc Cent Nuclear 7¼ 95	150	103⅝	104⅜	0	−0⅛	6.47
Turkey 6½ 95	500	97½	98	0	0	6.93
Westlb. Finance 5 93	200	†99	99⅛	0	0	5.23
World BK. 6⅛ 97	600	100⅞	101⅝	0	+0⅛	6.00

Average price change... On day +0 on week +0⅛

SWISS FRANC STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
African Dev.Bk. 5 96	150	†100⅜	101	−0½	−0⅛	4.86
Asfinag 5 03	100	†100½	101½	0	−0⅜	4.90
B.F.C.E. 4½ 98	200	†98½	99	−0⅞	−0⅛	4.66
B.M.W.Fin.Neth. 5 13	150	†96½	96¾	0	0	5.25
Britannia B/S. 4⅛ 94	100	†97	97½	−0⅛	−0⅛	4.82
CIR. Int. W/W 3 93	125	†96½	98½	+0½	−2⅜	3.59
Credit Lyonnais 4⅞ 00	100	†97⅜	98	0	−0⅛	4.99
E.I.B 4⅝ 98	150	†99¼	99⅞	0	+0⅛	4.69
Fletcher Chall. 4⅞ 98	150	†96¼	97	−0⅛	−0⅛	5.34
Kobe City 4⅝ 98	150	†98¼	98½	0	−0⅛	4.84
Leeds Perm. B/S. 4⅛ 93	200	†97½	98	−0⅛	0	4.70
Malaysia 5¼ 98	100	†97½	98½	0	−0⅜	5.52
Maxwell Comm.Crp. 5 95	150	†100½	101	0	−0⅛	4.86
Nationwide Ang.B/S. 4 93	200	†96⅞	97	+0⅛	0	4.78
Nippon Telg.&Tel.4⅛ 95	200	†98⅞	99	+0⅛	0	4.44
Oesters. Ktbk. 5 03	75	†100⅛	100½	+0⅜	0	4.96
Rep.National Bk. 4 93	150	†95	97½	−0⅛	−1	4.43
Thailand 4⅝ 95	200	†95¾	96⅛	0	−0⅜	5.36
World Bank 5 03	150	†101	101⅛	−0⅛	−0⅛	4.89

Average price change... On day 0 on week −0⅛

YEN STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Belgium 5⅛ 92	55	102½	102⅞	0	+0⅛	4.65
Belgium 4⅝ 94	45	98⅜	99	+0⅛	+0⅜	4.86
Canada 4⅞ 92	80	99⅛	99½	+0⅛	+0⅜	4.56
Elec. De France 5⅛ 94	20	101⅜	101⅞	+0⅛	+0½	4.77
Ireland 5⅛ 93	30	100⅛	100⅝	0	+0½	4.96
Norway 5⅛ 95	50	101½	101⅞	0	+0½	4.82
Rep. of Italy 5¾ 92	150	103⅜	103⅞	+0⅛	+0⅛	4.54
Sweden 4⅝ 93	50	99⅝	99⅞	0	+0⅜	4.68
World Bank 5½ 92	50	103⅛	103½	0	+0⅛	4.50

Average price change... On day +0⅛ on week +0⅜

OTHER STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Abbey Nat. BS. 10¼ 93 £	50	97⅜	97⅞	+0⅛	+0⅛	10.97
Alg. Bk. Ned. 5½ 92 FL	150	98¾	99⅜	0	−0⅛	5.84
Alg. Bk. Ned. 5¾ 93 FL	200	98⅝	99⅛	0	0	6.05
Amro Bank 6¼ 92 FL	150	101⅜	102	0	+0⅜	5.74
Aust.Ind.Dev. 12⅞ 93A$	100	96⅛	96⅝	−0⅛	−0⅛	13.93
Barc. Bk. 10⅛ 97 £	250	94⅜	94⅞	+0⅜	+0½	11.23
Barclays Aus.13½ 91 A$	100	99⅜	99⅞	0	0	13.62
BP Capital 9⅞ 93 £	100	94⅝	95⅛	+0⅛	+0⅛	11.27
British Airways 10 98 £	100	92	92½	+0⅛	+0⅛	11.38
Buhrmann-Tet. 6⅜ 93 FL	100	100⅛	100⅝	0	−0⅛	6.23
Comm.Bk.Aust. 12⅝ 93A$	100	96½	97⅛	−0⅛	0	13.47
Coop.Ctr.Rabo.6⅛ 93 FL	100	100⅛	100⅝	0	−0⅜	6.10
Coop.Ctr.Rabo.6 92 FL	200	100⅛	100⅝	0	−0⅛	5.83
Denmark 7⅛ 92 ECU	100	†102⅜	103⅛	0	0	6.64
Dixons 11 95 £	90	†95⅛	95⅞	+0½	−0⅛	11.83
Deut.Bk.Aust.12⅞ 95 A$	70	99½	100	+0⅛	+0⅜	12.77
Eastman Kodak 13 90 A$	100	96⅝	97⅛	−0⅛	−0⅛	14.98
E.I.B. 7 96 LFr	100	*†98¾	99¾	0	0	7.22
Elec.France 10¼ 95 C$	125	†99¼	99¾	+0⅜	+0⅛	10.33
Euratom 7⅛ 97 ECU	145	95½	96⅛	−0⅛	−0½	8.08
Fed.Bus.Dv.Bk.9⅞ 92 C$	75	†97⅛	97⅝	0	−0⅛	10.64
Ford Cr.Can.10¾ 93 C$	100	†99⅞	100⅜	0	+0⅛	10.69
Gillette Can. 9⅝ 93 £	70	92⅜	93	0	+0⅛	11.72
G.M.A.C. 9¾ 93 C$	150	†96½	97	+0⅛	−0½	10.68
G.M.A.C Aus.Fin.14 90 A$	50	100	100½	+0⅛	+1⅛	13.66
Halifax BS 10⅜ 97 £	100	95	95⅜	+0⅜	+0⅜	11.29
Imp Chem Inds 10 03 £	100	94⅛	94½	+0⅛	+0⅛	10.79
Inv.Industry Int.10 93 £	60	95⅛	95⅝	+0⅛	0	11.37
Lloyds Bank 10⅛ 98 £	150	92⅞	93⅜	+0⅛	+0⅛	11.47
Montreal Tst.10¼ 93 C$	100	†99	99½	+0½	+0⅛	10.93
Nat. West. Bk.13⅛ 92 A$	50	†99⅝	100⅛	+0⅛	0	13.16
Nationwide BS 10⅛ 93 £	75	95⅛	95⅝	+0⅛	+0½	11.46
Ned.Midd.Bank 6 92 FL	150	100	100½	0	0	5.90
New Zealand 9½ 93 £	100	93½	94	+0⅛	+0⅛	11.35
New Zealand 7⅞ 93 ECU	200	100½	101	0	+0⅛	7.52
Oesters.Ktbk.13⅛ 94 A$	75	100⅜	101⅛	−0⅛	0	13.32
Philips Gleoil. 6 93 FL	300	100⅛	100⅝	0	−0⅛	5.86
Prudential Fin.9⅜ 07 £	150	†88¾	89¼	+0⅛	−0⅛	10.75
Royal Bk.Scot.10⅝ 98 £	125	94⅞	95⅜	+0⅜	+0⅛	11.53
Saskatchewan 9⅞ 91 C$	150	†98¼	98¾	+0⅛	+0½	10.51
Saskatchewan 10¼ 93	200	98⅜	99	+0⅛	+0⅛	10.61
S.D.R. 7⅞ 95 ECU	90	†99⅜	99⅞	+0⅛	−0⅛	7.82
World Bank 5¾ 92 FL	100	99½	100	0	−0⅛	5.82
World Bank 13⅜ 92 A$	100	†99½	100	0	−0½	13.39
Zentrapk. 13⅛ 93 A$	75	98½	99⅛	−0⅛	+0⅛	13.58

FLOATING RATE NOTES	Spread	Bid	Offer	C.dte	C.cpn
Alliance & Leic. Bld 94 £	.08	99.67	99.72	21/01	10.99
Belgium 91 US	0	100.11	100.21	21/02	9
Britannia 5 93 £	0⅛	99.90	99.95	10/01	12.12
Chase Manhattan Crp. 91 US	0⅛	99.50	99.67	22/02	8.94
Citicorp 98 US	10⅛	97.40	97.65	30/11	8.94
Credit Foncier 98 US	.063	99.58	99.68	20/10	5⅛
EEC 3 92 DM	10	101.08	101.18	22/02	5.63
Halifax BS 94 £	.1	99.84	99.89	8/02	12.29
Inst. in Industry 94 £	0	99.95	100.05	24/02	11.87
Leeds Perm. B/S. 94 £	0⅛	100.01	100.06	13/01	10.44
Midland Bank 01 £	.1	96.25	97.12	11/02	11.41
Milk Mkt. Brd. 5 93 £	0⅛	99.95	100.00	30/12	12.06
New Zealand 5 97 £	.07	100.08	100.16	20/02	12.16
New Zealand 5 01 US	0	99.76	99.86	4/02	8.62
State Bk. Nsw. 98 US	.188	100.29	100.39	13/02	8.87
Woolwich Equit. BS. 93 £	0⅛	99.90	99.95	13/01	12.12
Woolwich 5 95 £	0⅛	99.78	99.83	21/02	12.37

Average price change... On day +0.00 on week +0.03

CONVERTIBLE BONDS	Cnv. date	Cnv. price	Bid	Offer	Chg. day	Prem
Alcoa 6¼ 02 US	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Amer. Brands 7¼ 02 US	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Ashikaga Bank 2¼ 02 US	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Asics 5 92 DM	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
CBS. Inc. 5 02 US	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Eng.China Clays 6¾ 03 £	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Fujitsu 3 99 US	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Land Secs. 6¾ 02 £	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
MCA INC 5 02 US	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Minolta Camera 2¼ 94 DM	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mitsubishi Bk 2¼ 02 US	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mitsui trust 2¼ 01 US	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Next PLC 5¼ 03 £	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Nikki Nippon 2¼ 03 US	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Omron Tateisi 2¼ 02 US	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Primerica 5 02 US	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Ranks Hovis 6¾ 03 £	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Redland 7¼ 02 £	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Saatchi&Saatchi 6¾ 03 £	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Texas Inst. 2¼ 02 US	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
W.R. Grace 4¼ 02 US	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

* No information available-previous day's price

† Only one market maker supplied a price

Straight Bonds: The yield is the yield to redemption of the mid-price; the amount issued is in millions of currency units except for Yen bonds where it is in billions. Change on week=Change over price a week earlier.

Floating Rate Notes: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. C.dte=Date next coupon becomes effective. Spread=Margin above six-month offered rate (three-month; above mean rate) for US dollars. C.cpn=The current coupon.

Convertible Bonds: Denominated in dollars unless otherwise indicated. Chg. day=Change on day. Cnv date=First date of conversion into shares. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

Debenture issues fund India growth

By David Housego in New Delhi and RC Murthy in Bombay

INDIAN capital markets are experiencing an explosive period of growth, with a substantial increase in the volume of funds being raised by the private sector in new equity and bond issues.

Over the coming two months, companies are seeking to raise Rs13bn ($875m) mainly in convertible debenture issues carrying the right for investors to convert fixed-interest paper into equity.

This compares with a total of Rs18.7bn raised in new equity and debenture issues during the full financial year 1986-87.

Brokers in Bombay expect the rapid expansion to continue, with the corporate sector raising more than Rs50bn during the next calendar year.

Companies' growing preference for the capital markets, rather than more traditional bank borrowings, in raising funds coincides with a surge in stock market prices.

During the year, the Financial Express Index for the Bombay Stock Exchange has climbed 74 per cent, closing at 677 by the end of last week, and the All-India Index has climbed 65 per cent to 514.

The growth has been fuelled by an upswing in the economy generated by the good monsoon and rising corporate profits.

At the same time, more flexibility in the industrial licensing regulations is permitting companies to build large plants – increasing the size of their financing requirements.

The largest issue this year has been a Rs5.1bn convertible debenture launched by Mr Dhirubhai Ambani's Reliance Group. It attracted more than Rs12bn in subscriptions.

Among the companies coming to market over the next two months are Mr Aditya Birla's Grasim Industries, aiming to raise Rs690m, Mr Abhey Oswal's Oswal Agro Mills (Rs2.8bn), Deepak Fertilisers (Rs2bn) and Digital Instruments India, a subsidiary of the US electronics group, which will seek to raise Rs400m.

Further pressure on the corporate sector to turn to the capital markets to raise funds results from the limited access to borrowing provided through the state-owned banking sector.

هكذا من الأصل

INTERNATIONAL CAPITAL MARKETS

US Treasury bonds higher as correction continues

By Janet Bush in New York and Norma Cohen in London

US TREASURY bonds moved sharply higher yesterday in a continuing correction to the substantial losses sustained last Friday in response to November's stronger than expected employment report.

At midsession, short-dated issues were quoted as much as ½ point higher, while the Treasury's benchmark long bond stood nearly a full point higher for a yield of 9.02 per cent.

The rally over the last two trading sessions brings the long end of the yield curve up to around the level prevailing before the employment report, while the short end still has about 10 basis point to go.

Bond traders reported some fairly substantial foreign buying across the yield curve in an upward move which was partly related to movements in the futures market.

The main topic of conversation in the market continues to be the intentions of the US Federal Reserve towards monetary policy and whether a discount rate rise is imminent.

There seems little doubt in the market that the Fed has been tolerating a Fed funds rate above 8¼ per cent. On the other hand, there is no reason for the Fed to raise the discount rate from 6.5 per cent, looking at the current spread between Fed funds and the discount rate.

Mr Joseph Liro, an economist at Warburg Securities in New York, said: "The Fed has condoned a higher Fed funds rate. They may now want to move to the sidelines and see what economic cards they are dealt over the next month or so."

Many bond analysts believe the Fed will reserve the ammunition of a discount rate rise until needed. Possible triggers could be another assault on the dollar or the need to take concrete action into a Group of Seven meeting.

Fed funds were trading at 8⅜ per cent at midsession. There were no key economic indicators.

UK GOVERNMENT conventional gilts closed with strong gains, of nearly ¾ points, buoyed by a rally in sterling that prompted market professionals to cover the short positions adopted over the past two weeks.

But the attention of dealers was securely fastened on Morgan Grenfell, the latest casualty among primary dealers in gilts, which simultaneously made a more spectacular withdrawal from equity market making as well. The firm said that 450 employees were to go.

Dealers speculate that Morgan Grenfell still has a gilts position to liquidate since traders there appeared as shocked by news of the withdrawal as everyone else.

While rumors about the firm's imminent withdrawal had been circulating on Monday, they were dismissed after it became apparent that dealers at Morgan Grenfell were still making two-way prices as late as Tuesday morning.

As the lack of turnover in gilts, exacerbated by the UK Treasury's full funding policy, has led to tough times for nearly all players in the market, the firm's withdrawal was not a complete surprise.

GOVERNMENT BONDS

DANISH government bond markets rose to their highest levels since April 1986, buoyed early in the day by speculation that the Government had reached an agreement on a budget deficit reduction package for 1989.

The benchmark 9 per cent mortgage bonds due 2006 closed over 1 point higher at 97.70/80 after opening at 96.60 and peaking at close to 98.

The government bond market has also been supported by a lack of new securities and increasing paydowns of existing ones.

Mainly due to the decrease in the state fiscal budget deficit, the net supply of government bonds has decreased from about DKr20.3bn in 1985.

But about two thirds of the Danish government bond market is in the form of mortgage bonds, backed by domestic home loans, which are also decreasing.

As interest rates have fallen in Denmark, homeowners are paying down their mortgages and refinancing at lower interest rates. In addition, the sluggish economy has reduced the demand for new home loans so that fewer new mortgages are being made.

GOVERNMENT bond prices were slightly higher in Tokyo, with the benchmark 105th issue closing the day at Y103.51, up Y0.30. The yield on the issue fell 4.5 basis points to 4.455 per cent.

A lack of incentives kept trading subdued late in the day, and the high rise in the bond price also led to profit-taking. The health of Emperor Hirohito remains a market factor, with dealers being asked to limit the number of sales calls made to customers.

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Change	Yield	Week ago	Month ago
UK GILTS		13.500	9/92	107-30	+13/32	10.87	11.00	10.21
		8.750	9/97	92-07	+17/32	10.11	10.22	9.65
		9.000	10/08	95-07	+19/32	9.19	9.18	9.01
US TREASURY*		8.875	11/98	98-26	+13/32	9.05	9.13	8.86
		9.000	11/18	99-09	+17/32	9.07	9.16	8.84
JAPAN	No 105	5.000	12/97	103.5809	+0.332	4.45	4.57	4.72
	No 2	5.700	3/07	109.7293	+0.429	4.71	4.86	5.00
GERMANY		6.750	8/98	102.1000	+0.225	6.47	6.48	6.33
FRANCE	BTAN	8.000	10/93	97.9833	+0.114	8.54	8.58	8.40
	OAT	8.500	5/98	104.8250	+0.425	8.71	8.75	8.70
CANADA*		10.250	12/98	101.2500	+0.500	10.05	10.13	9.87
NETHERLANDS		6.7500	10/98	101.8000	+0.070	6.57	6.53	6.36
AUSTRALIA		12.500	1/98	100.1469	+0.295	12.46	12.46	11.92

London closing. *denotes New York morning session. Month ago yields on US Treasury apply to the 9.250 of '98 and the 9.125 of 2018. Yields: Local market standard. Prices: US, UK in 32nds., others in decimal.

Technical Data/ATLAS Price Sources

Governor of Bank warns on Ecu uncertainty

By Stephen Fidler

MR ROBIN Leigh-Pemberton, Governor of the Bank of England, yesterday urged European governments to reduce uncertainties about the Ecu ahead of the expected change in its composition next September.

Mr Leigh-Pemberton told the Ecu Banking Association in London he felt strongly that leaving market participants with a clearer idea of the outcome of the reweighting - likely to incorporate the peseta and escudo into the Ecu basket - would assist development of the Ecu markets.

"Delaying a decision, leaving market participants in the dark, will do nothing to enhance the progress of the Ecu," he said.

He added that the possible exclusion of the two currencies was important for two reasons. Banks whose Ecu assets exceeded their liabilities and hedged the difference in the national markets would have to adjust their hedging strategy, while the inclusion of two high-yielding currencies would enlarge the impact of the reweighting of Ecu yields and asset prices.

The governor said he would welcome issues of Ecu debt, in particular short-term sovereign paper, from other European Community countries to complement the Bank's own Ecu Treasury bill programme.

Those who would give the Ecu a grander role in moving towards full economic and monetary union in Europe suffered "from a case of misjudged enthusiasm."

The private Ecu would, he said, stand or fall on its commercial attractions.

He accepted that while sterling remained inside the Ecu but outside the exchange rate mechanism of the European Monetary System it contributed something of a "random element."

● The Bank said it would auction next Tuesday Ecu200m of one-month Ecu Treasury bills, Ecu250m, of three-month bills and Ecu200m of six-month bills. At the initial auction, Ecu900m of the paper was on offer, while at the second auction last month Ecu750m was auctioned.

Home insurers build on innovation

Nick Bunker on the burgeoning use of mortgage pool indemnities

Genuine innovations are rare in property and liability insurance. One idea whose time has come in the UK is the mortgage pool indemnity, which so far this year has produced premiums of about £15m for insurance companies.

Its origins lie in the emergence in 1986-87 of the new specialist UK residential mortgage lenders, such as the Household Mortgage Corporation (HMC) and the National Home Loans Corporation (NHLC), funded from the Euromarkets. Their problem was to secure Standard & Poor's triple-A ratings for issues.

One solution, akin to the municipal bond insurance available in the US since 1971, was to find insurers able to use their own S&P ratings to enhance the creditworthiness of an issue by insuring bondholders against the risk of default by British homeowners.

The signs now are that London's mortgage pool insurance market has overcome an acute shortage of capacity. It is contemplating expansion into other financial guarantees, principally of securitisation of fresh types of consumer debt.

The downside is that customers - the specialist lenders - are querying the profit margins demanded by insurers.

London's first mortgage pool indemnity policy was issued more than 18 months ago by Sun Alliance, covering a floating-rate note issue by NHLC. However, the two companies making the running have been Eagle Star, the insurance subsidiary of BAT Industries, and a London intermediary firm, Special Risk Services (SRS).

Founded in 1987 by defectors from Willis Faber, the insurance broker, SRS has broked mortgage pool indemnities for 15 of the 18 mortgage-backed FRN issues made so far in 1988.

In theory, mortgage pool indemnities are merely an extension of mortgage guarantee policies, which building societies require from some borrowers to protect themselves against losses after a repossession.

In practice, though, mortgage pool indemnities can be legally complex. For instance, documentation must ensure that benefits from the policy are assigned to a trustee on the bondholders' behalf.

For insurers, the big attraction is the low risk. Mr Ron Buxton, Eagle Star's financial insurance manager, says: "It's not pure risk transfer, so much as credit enhancement."

On, say, a £100m household mortgage portfolio, Eagle Star expects the issuer to put cash in escrow to meet losses up to the first £500,000 - much greater than the average building society default rate.

The issuer buys insurance against losses up to 10 per cent of the pool, with as many as 40 insurers, such as Norwich Union and General Accident, reinsuring the risk behind a leader like Eagle Star.

The premium rates are determined by factors such as the issuers' customer base and arrears record. But a typical rate is 0.3 to 0.35 per cent of the mortgage pool, or £300,000 on a £100m portfolio.

To date, the chief constraint on the market has been capacity. Few British companies have bothered to acquire S&P ratings. Only three - Royal Insurance, Sun Alliance, and Mercantile & General, Prudential Corporation's reinsurance subsidiary - are rated triple-A for their non-life operations, while Eagle Star is double-A.

There are ways around this. Eagle Star upgrades its status by bringing in two S&P triple-A rated insurers - Hansa of Sweden and Pohjola of Finland - as co-underwriters, qualifying the insured bond for a triple-A rating.

A more intractable constraint is that Lloyd's of London syndicates, although leading suppliers of insurance for financial institutions, are banned from mortgage indemnities under a 1924 regulation excluding them from credit-related risks.

The focus of effort for SRS and Eagle Star in the last 18 months has been to seek support from the leading German and Swiss reinsurers.

Although they met initial reluctance from groups which have lost money on US financial guarantees, Mr Stephen Wenman, SRS's chairman, now perceives cautious acceptance. Companies including Zurich Insurance and Swiss Re are supporters.

One benefit for insurers from the tight capacity is the absence of the price competition seen in the US. Mr Wenman says competition in the UK actually comes from the specialist lenders, if they dispense with mortgage indemnities by splitting a bond issue into junior and senior debt.

An example was an FRN issued last January by the HMC, made up of £150m of class A notes and £12m class B. The latter carry the default risk, enhancing the rating of the senior notes, and there are strong feelings at the NHLC and the HMC that junior/senior is preferable.

"It's a more efficient use of capital," says Mr Robert Weir, HMC's treasurer. "There are two things wrong with insurance: the fat premium up front, and the money you have to keep to meet the deductible."

He also doubts the wisdom of relying on insurers which could forsake the market if future price competition erodes profits.

The obstacle to junior/senior, though, is the back-room work: securing a rating for a junior/senior issue can require a 300-page cash-flow projection, compared with 30 for an insured deal.

On the evidence so far, mortgage pool indemnities are here to stay in London. Eagle Star's Mr Buxton reckons they could be producing between £30m and £50m in gross premiums in 1989. What comes next may be more marriages between insurance and investment banking.

HMC, for instance, involved its 20 per cent shareholder American International Group, the US insurer, in a fixed-rate mortgage-backed Eurobond.

AIG enhanced its rating by providing a "put," agreeing to buy back the mortgages after five years.

Another possibility, says Mr Kevin Milner, NHLC's managing director (finance and development), is for specialist lenders to start captive insurance companies to issue the mortgage indemnities.

According to Eagle Star and SRS, though, the next key UK development will be to follow US precedents and insure securitisation of consumer credit and commercial mortgages.

Mr Wenman says: "We've quoted rates for issues backed by credit, store and charge cards, but nobody's gone ahead with one." His other priority in 1989 will be persuading Lloyd's to allow its underwriters into the market.

Austrian bank withdraws issue

By Norma Cohen

CREDITANSTALT Bankverein has withdrawn a planned SFr100m bond issue at the request of Austrian banking authorities, which objected to the unusually heavy level of foreign borrowings this year by the country's banks.

An official at the bank's Vienna headquarters said the issue, which had been partly syndicated in Switzerland on December 2 and was to be lead managed by Wirtschaft und Privatbank, may be launched next year. The funds were to be used to refinance an earlier SFr100m issue which becomes callable at the end of 1989.

The bank has been a key Austrian user of foreign currency markets this year, issuing in October alone a C$75m Eurobond, a $100m Eurobond and two fungible Eurobonds totalling Ecu160m.

Abbey Life arranges financing

By Katharine Campbell

ABBEY LIFE Group has arranged through Samuel Montagu a £250m syndicated revolving credit facility for Abbey Life Funding, its mortgage subsidiary.

The five-year financing, fully underwritten by a group of five international banks, is priced at ⅛ per cent over London interbank offered rates and has an option for the lender to extend it a further two years.

There is a commitment fee of ⅛ per cent and the extension fee would be a flat 5 basis points.

The proceeds are to fund an expanding mortgage portfolio, which carries 100 per cent pool and indemnity insurance, currently provided by Eagle Star. Abbey Life, in turn, furnishes a full unconditional guarantee for the obligations of its subsidiary.

LONDON MARKET STATISTICS

FT-ACTUARIES SHARE INDICES

These indices are the joint compilation of the Financial Times, the Institute of Actuaries and the Faculty of Actuaries

EQUITY GROUPS & SUB-SECTIONS (Figures in parentheses show number of stocks per section)	Tue Dec 6 1988 Index No.	Day's Change %	Est. Earnings Yield% (Max.)	Gross Div. Yield% (Act at (25%)	Est. P/E Ratio (Net)	xd adj. 1988 to date	Mon Dec 5 Index No.	Fri Dec 2 Index No.	Thu Dec 1 Index No.	Year ago (approx) Index No.
1 CAPITAL GOODS (209)	769.43	+0.5	11.61	4.44	10.65	24.06	765.57	767.53	777.88	651.61
2 Building Materials (28)	935.48	+0.3	13.50	4.84	9.12	29.21	933.06	937.84	954.75	825.98
3 Contracting, Construction (39)	1438.58	+0.1	13.58	4.21	9.60	46.04	1437.20	1448.22	1473.74	1213.63
4 Electricals (11)	2306.61	-0.2	9.32	4.90	12.97	76.55	2318.48	2319.37	2340.60	1889.02
5 Electronics (30)	1716.44	+1.3	10.62	3.69	12.21	43.59	1693.82	1705.41	1721.89	1409.74
6 Mechanical Engineering (55)	487.19	+0.6	11.24	4.49	10.87	13.59	484.89	483.42	489.27	324.13
8 Metals and Metal Forming (7)	457.98	+0.7	10.82	4.44	11.45	13.69	454.77	457.05	471.38	398.03
9 Motors (16)	265.79	-0.1	12.76	5.07	9.05	9.80	266.04	265.01	268.24	227.01
10 Other Industrial Materials (23)	1304.12	+0.3	10.24	4.74	11.54	44.22	1300.74	1298.74	1309.30	1162.47
21 CONSUMER GROUP (187)	1016.37	+0.1	10.09	4.03	12.45	27.98	1015.53	1021.12	1028.39	961.56
22 Brewers and Distillers (21)	1124.78	+0.3	10.97	3.72	11.41	24.10	1121.31	1126.21	1130.97	921.05
25 Food Manufacturing (21)	918.01	———	9.74	4.15	12.96	26.17	917.87	923.17	924.85	768.56
26 Food Retailing (16)	1790.64	+1.2	9.91	3.83	13.27	46.95	1769.09	1793.99	1808.01	1947.53
27 Health and Household (12)	1775.70	-0.1	7.59	2.86	15.13	40.69	1777.51	1788.95	1793.97	1737.58
29 Leisure (31)	1357.10	+0.4	8.77	3.80	14.60	35.06	1351.99	1358.97	1365.66	1026.79
31 Packaging & Paper (17)	521.06	-0.5	10.70	4.32	11.62	16.19	523.84	522.58	528.99	456.05
32 Publishing & Printing (19)	3222.67	-0.7	9.50	4.75	13.17	106.59	3245.06	3245.51	3296.44	2972.27
34 Stores (34)	679.43	-0.3	12.50	5.84	10.52	23.22	681.46	688.28	693.71	785.97
35 Textiles (16)	449.77	+0.1	15.47	6.25	7.74	18.17	449.50	451.31	460.39	553.26
40 OTHER GROUPS (92)	882.13	———	11.60	4.70	10.45	24.69	881.87	883.64	891.10	775.84
41 Agencies (19)	1019.77	-0.5	8.66	2.74	14.54	20.98	1025.00	1025.73	1031.06	899.11
42 Chemicals (22)	996.43	-0.3	12.79	5.28	9.39	41.34	999.84	1001.60	1004.75	968.66
43 Conglomerates (12)	1237.86	-0.2	10.87	4.69	10.54	25.26	1239.98	1240.03	1252.16	1037.81
45 Shipping and Transport (12)	1850.95	———	12.10	5.07	10.00	62.40	1851.59	1860.03	1870.10	1608.73
47 Telephone Networks (2)	998.16	+0.7	11.77	4.71	11.05	20.38	991.34	989.27	997.15	816.06
48 Miscellaneous (25)	1145.19	-0.2	12.42	4.79	9.17	40.53	1147.53	1150.06	1176.38	1074.44
49 INDUSTRIAL GROUP (488)	929.52	+0.2	10.94	4.32	11.33	26.67	927.84	931.32	939.80	837.58
51 Oil & Gas (12)	1703.76	+0.6	10.86	6.56	11.78	76.82	1694.37	1688.28	1701.67	1587.35
59 500 SHARE INDEX (500)	995.30	+0.2	10.93	4.64	11.39	30.89	992.99	995.71	1004.68	981.15
61 FINANCIAL GROUP (124)	679.68	+0.5	—	5.24	—	25.49	676.32	677.43	683.57	581.58
62 Banks (8)	667.40	+0.1	21.24	6.50	6.31	31.13	666.65	669.85	674.51	601.08
65 Insurance (Life) (8)	931.17	+1.6	—	5.70	—	39.81	916.47	913.76	921.48	855.34
66 Insurance (Composite) (7)	506.05	+1.5	—	6.18	—	24.04	498.81	498.47	503.98	462.64
67 Insurance (Brokers) (7)	896.63	+0.9	9.76	7.22	12.80	46.87	888.99	889.37	903.21	766.99
68 Merchant Banks (11)	320.40	+1.0	—	4.60	—	10.15	317.15	319.25	321.95	310.08
69 Property (52)	1266.15	———	5.56	2.70	22.98	21.81	1266.05	1265.44	1279.40	868.92
70 Other Financial (31)	352.22	-0.2	9.99	5.60	12.50	14.72	352.98	354.65	356.93	351.04
71 Investment Trusts (76)	905.48	+0.3	—	3.32	—	19.78	902.80	908.15	913.65	748.29
81 Mining Finance (2)	553.70	+0.1	11.04	3.78	10.09	15.67	553.19	552.68	560.58	399.58
91 Overseas Traders (8)	1300.45	-1.2	9.02	4.87	12.05	44.98	1315.58	1338.22	1351.02	887.93
99 ALL-SHARE INDEX (718)	917.20	+0.3	—	4.60	—	29.10	914.04	917.38	925.65	815.50

	Index No.	Day's Change	Day's High (a)	Day's Low (b)	Dec 5	Dec 2	Dec 1	Nov 30	Nov 29	Year ago
FT-SE 100 SHARE INDEX ♦	1767.4	+5.8	1771.1	1759.7	1761.6	1765.0	1778.7	1792.4	1786.9	1624.4

FIXED INTEREST

PRICE INDICES	Tue Dec 6	Day's change %	Mon Dec 5	xd adj. today	xd adj. 1988 to date
British Government					
1 5 years	118.34	+0.22	118.17	0.10	10.67
2 5-15 years	135.20	+0.41	134.64	—	11.64
3 Over 15 years	147.00	+0.51	146.39	0.15	13.25
4 Irredeemables	169.78	+0.23	169.40	—	15.62
5 All stocks	132.50	+0.36	132.08	0.05	11.62
Index-Linked					
6 5 years	130.41	+0.01	130.40	—	1.81
7 Over 5 years	127.99	-0.06	128.08	—	2.96
8 All stocks	127.98	-0.06	128.05	—	2.85
9 Debentures & Loans	116.93	———	116.94	—	11.28
10 Preference	86.17	-0.19	86.33	—	6.31

AVERAGE GROSS REDEMPTION YIELDS		Tue Dec 6	Mon Dec 5	Year ago (approx.)
British Government				
1 Low Coupons	5 years	10.32	10.40	8.52
2	15 years	9.48	9.55	9.43
3	25 years	9.05	9.09	9.28
4 Medium Coupons	5 years	10.71	10.80	9.15
5	15 years	9.70	9.76	9.62
6	25 years	9.25	9.29	9.53
7 High Coupons	5 years	10.86	10.95	9.22
8	15 years	9.84	9.89	9.77
9	25 years	9.28	9.33	9.56
10 Irredeemables†		8.92	8.94	8.99
Index-Linked				
11 Inflation rate 5%	5yrs	3.47	3.46	2.53
12 Inflation rate 5%	Over 5 yrs	3.69	3.68	3.73
13 Inflation rate 10%	5yrs	2.30	2.29	2.86
14 Inflation rate 10%	Over 5 yrs	3.52	3.52	3.88
15 Debs & Loans	5 years	11.37	11.29	10.57
16	15 years	11.12	11.08	10.56
17	25 years	10.86	10.86	10.56
18 Preference‡		10.39	10.37	10.54

♦Opening index 1766.0; 10 am 1762.0; 11 am 1766.8; Noon 1770.2; 1 pm 1770.8; 2 pm 1770.2; 3 pm 1769.3; 4 pm 1766.8; 4.05 pm 1767.1 (a) 12.30pm (b) 9.44am † Flat yield. Highs and lows record, base dates, values and constituent changes are published in Saturday issues. A new list of constituents is available from the Publishers, The Financial Times, Bracken House, Cannon Street, London EC4P 4BY, price 15p, by post 34p. CONSTITUENT CHANGES: Associated Newspapers (32) has been deleted and replaced by Daily Mail and General Trust "A" N/V (32).

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	99	9	3
Corporations, Dominion and Foreign Bonds	17	2	32
Industrials	380	424	777
Financial and Properties	176	110	384
Oils	19	22	64
Plantations	0	0	13
Mines	31	43	116
Others	74	55	122
Totals	796	665	1,511

LONDON RECENT ISSUES

EQUITIES

Issue Price	Amount Paid up	Latest Renunc. date	1988 High	1988 Low	Stock	Closing Price	+ or -	Net Div.	Times Cov'd	Gross Yield	P.E. Ratio
[illegible]											

FIXED INTEREST STOCKS

Issue Price £	Amount Paid up	Latest Renunc. date	1988 High	1988 Low	Stock	Closing Price £	+ or -
[illegible]							

RIGHTS OFFERS

Issue Price p	Amount Paid up	Latest Renunc. Date	1988 High	1988 Low	Stock	Closing Price p	+ or -
[illegible]							
175	Nil	30/12	28pm	2pm	Raines Group 10p	2½pm	-2½
5	Nil	10/1	10½pm	1pm	SelecTV 1p	6pm	-½

a Annualised dividend. b Figures based on prospectus estimates. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. g Assumed dividend and yield. s Dividend and yield exclude special payment. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. L Estimated annualised dividend, cover and p/e based on latest annual earnings. M Dividend and yield based on Prospectus or other official estimates for 1988. N Dividend and yield based on prospectus or other official estimates for 1989. Q Gross. R Forecast annualised dividend, cover and p/e ratio based on prospectus or other official estimates. W Pro Forma figures. ♦ Issued by tender. ♦ Offered to holders of ordinary shares as a "rights". † Introduction. ‡ Placing price. †† Reintroduction. ♦ Issued in connection with reorganisation merger or takeover. ‡ Allotment price. ♦ Unlisted securities market. ♦ Official London listing. □ Including warrants entitlement. * Third Market.

TRADITIONAL OPTIONS

- First Dealings Dec 5
- Last Dealings Dec 16
- Last Declarations Mar 9
- For settlement Mar 20

For rate indications see end of London Share Service

Calls in BTR Wrts, PML, Baynes (C), Norfolk Caps, LEP, Eagle Trst, First Leis, Marley, NEI, Control Secs, Addison Cons, Brit Steel, Burndene, Regalian, Rosehaugh, Oliver Res. Put in Baynes (Charles). P/C in Br Steel.

LONDON TRADED OPTIONS

Option		CALLS Jan	Apr	Jul	PUTS Jan	Apr	Jul
Allied Lyons (*464)	460	21	38	49	15	23	31
	500	6	19	33	42	47	52
Brit. Airways (*156)	140	19	24	28	2½	5	8
	160	6	12	15	10	12	15
[illegible]							

Option		CALLS Feb	May	Aug	PUTS Feb	May	Aug
Plessey (*216)	200	24	33	36	6½	9	11
	220	14	20	25	15	18	21
Prudential (*148)	140	15	17	18	4	6	7
	160	5	6	8	16	17	18
[illegible]							

UK COMPANY NEWS

Trafalgar House at top of City hopes with £229m

By David Waller

TRAFALGAR HOUSE, the UK shipping, property and construction group, increased pre-tax profits by 40 per cent in the year to the end of September. At £229.1m, the result was at the top end of City expectations.

Together with an upbeat assessment of conditions in the commerical property market, the figures prompted an initial *gain in the share price. But the* shares closed down on the day as the City reflected on conditions in the UK housebuilding business, which accounted for about £75m of operating profits last year.

Mr Eric Parker, chief executive, let it be known that housing sales were 20 per cent down since the start of the current financial year. He said an improvement in margins would more than compensate for any decline in volume, and profits *this year should not fall from* 1987-88 levels. Nevertheless, the company's shares dropped 6p to close at 300½p.

Trafalgar reported record turnover and operating profits in each of its main divisions. On total turnover up 13 per cent to £2.7bn, operating profits rose from £194.5m to £256m.

Sir Nigel Broackes – busy year for commercial properties

Earnings per share rose by 16 per cent to 36.6p and the proposed final dividend was 8.8p (8p), bring the total for the year to 16p, an increase of 10 per cent.

By far the most impressive growth in profits came from the property and investment division, where the contribution climbed from £105.9m to £149.1m. Approximately half of this came from housebuilding in the US and in the UK, where Trafalgar sold 5,200 units, 300 fewer than the previous year.

Reflecting the acquisition of Chase Property, turnover for the division rose from £535m to £676m and at the year end, the level of developments for sale had increased from £300m to £681m.

Sir Nigel Broackes, chairman, said conditions in the commercial property market had never seemed better. In an intensely busy year, the market had fully recovered from a period of uncertaintly following the stock market crash in October 1987, and rental growth and demand for property showed every sign of continuing apace.

For construction and angineering, it was a "year of consolidation" and profits rose slightly from £52.9m to £53.5m. Shipping and hotels benefited from the recommissioning of the QE2 and profits increased from £30.1m to £46.5m. Oil and gas profits rose from £5.6m to £6.9m.

The interest charge fell from £31.3m to £26.9m and the figures included a £5.4m extraordinary profit on the sale of Trafalgar's water company interests to Bouygyes, its former joint venture partner.

See Lex

Atkins declines to £390,000

By Alice Rawsthorn

ATKINS BROTHERS (Hosiery), textile and electronics group in which Mr Russell Goward's Charterhall has amassed a shareholding, yesterday announced a fall in pre-tax profits from £513,000 to £390,000 in the six months to end-September after an exceptional item of £162,000.

The group succeeded in increasing turnover to £9.25m (£8.84m) and operating profits to £573,000 (£544,000). An exceptional payment of £162,000 to two directors taking early retirement – thereby clearing the way for a new management team – at Cartner, its electronics company, caused the reduction in pre-tax profits.

Earnings per share fell to 6.64p (8.76p on continuing activities). Nevertheless the board proposes to increase the interim dividend to 3.3p (3p). Atkins' shares slipped 10p to 368p yesterday.

Atkins, based at Hinckley, Leicestershire, is a long established player in the east Midlands knitting industry with its interests in finishing, hosiery, underwear and leisurewear.

In the mid-1980s the group diversified into electronics to reduce its reliance on textiles. The electronics companies fell into a loss shortly after the acquisition. Cartner, the main company, returned to profit last year. Atkins is now negotiating the sale of Textlite, the other electronics business which it tried unsuccessfully to sell last year. Textlite made a loss of £18,000 (£10,000) – expressed as an extraordinary item in the first half.

Mr Bill Dawson, chairman, said that the textile businesses – which provided about 75 per cent of turnover – fared well in the first half. He expressed caution about prospects for the New Year, however, given the continued influx of textile imports into the UK and the uncertain outlook for consumer spending.

Cartner increased sales by 12 per cent in the first half, but saw profits decline reflecting the flow of orders during the interim period. Mr Dawson was "hopeful" of an improvement in profits for the full year.

Charterhall, the investment vehicle of Mr Goward, now holds 9 per cent of Atkins' shares. Last week Charterhall mounted an agreed bid for Corah, another player in the east Midlands knitting industry. Mr Dawson said he had received no indication as to Mr Goward's long term intentions.

Storehouse stakebuilder thought to be Edelman

By Maggie Urry and David Waller

STOREHOUSE, the retail group headed by Sir Terence Conran, said yesterday that it believed Mr Asher Edelman, the New York-based arbitrageur, was associated with the build up of a 4.9 per cent stake in the company's shares.

The announcement confirmed stock market rumours that Mr Edelman had taken an interest. Mr Edelman, who recently made a name for himself in Europe by putting Lonrho "into play," refused to make any comment yesterday.

After recent heavy trading in Storehouse's shares, and long-running speculation about a bid for the group after the failed takeover offer from Benlox, a small engineering business, a year ago, Storehouse served a number of Section 212 notices on share buyers. These notices ask for the identity of the beneficial ownership of shares.

Smith New Court Carl Marks, the New York arm of Smith New Court, the UK securities house, confirmed that as at December 1 it had purchased 20m shares on behalf of a number of individuals and companies. Storehouse said it believed all these holders were associated with Mr Edelman.

Kleinwort Benson, Storehouse's merchant bank adviser, said it was now asking for further information about the holders disclosed by Smith New Court Carl Marks.

Shares in the retail group closed unchanged yesterday at 197p.

Platignum well down at midterm

Profits fell sharply at Platignum, manufacturer of writing instruments and precision tools and houseware distributor, in the six months to July 31. The directors warned that the outlook for the full year was disappointing.

The taxable result in the first half fell from £296,000 to £106,000 on turnover which advanced to £11.49m (£9.95m). Earnings per 5p share were 0.14p (0.3p).

ANI wins takeover battle for Aurora

By Ray Bashford

AUSTRALIAN National Industries has won the takeover fight for Aurora after yesterday boosting its holding in the Sheffield-based engineering group to 58 per cent.

ANI, Australia's biggest engineering group, snapped up 9.3 per cent of the capital in the stock market to push its holding through the 50 per cent level and will declare the offer unconditional within the next two days.

The final act in the takeover, which values Aurora at £138.1m, will be played out in London on Friday when the Sheffield group's board is expected to recommend acceptance.

Agreement would fulfil the Australian group's aim of expanding away from its relatively limited domestic base while establishing a presence in Britain as launching pad for European development.

ANI was barred from buying shares through the market until yesterday by Takeover Panel rules, but in addition to this latest 9.3 per cent a further 7.7 per cent has been received through shareholder acceptances, lifting the holding to 58 per cent.

ANI has been positioning itself for a possible offer since late last year. It built its holding up to 22 per cent prior to launching the 148.5p a share offer with a loan note alternative early last month.

The company's hand was strengthened significantly when Electra, the investment institution, accepted the offer for its 19 per cent holding.

M&G and Investors in Industry (3i), the other two major shareholders with 22.9 per cent combined, *will follow the* board's instruction after having previously rejected the offer.

A major shareholder yesterday expressed bitterness about Electra's decision to break ranks with M&G and 3i. "If Electra hadn't given up we could have got a much higher price," he said.

Another shareholder said there might be a wrangle with ANI about the terms of the loan note offer, which was inserted as a means of skirting around possibile heavy tax charges through acceptance of the cash bid.

Aurora has been a highly successful investment for the three institutions. Their stakes were acquired at 10p a share when they participated in the reconstruction in 1983.

M&G stands to make a £19m profit and 3i £11m if they accept the offer. ANI is estimated to have paid an average of about 130p a share for its holding, having made its first purchases at about 80p.

Enlarged Mecca marginally ahead of forecasts

By David Waller

MECCA LEISURE, the bingo, holiday camps and nightclubs group which recently won its £750m takeover battle for Pleasurama, yesterday announced 1987-88 profits and earnings marginally ahead of forecasts.

Pre-tax profits rose by 71 per cent to £22.5m for the year to the end of September, compared to a forecast of £22.25m. Earnings per share – exclu*ding property profits* – climbed 27 per cent to 14.7p against a forecast of 14.4p.

Mecca's year end has been changed to December 31, in line with the Pleasurama businesses. Thus the next full accounts will cover 15 months, and include a two month contribution from Pleasurama.

As forecast, Mecca is recommending a final dividend of 2.75p, making 4.5p for the year. Group turnover rose from £128.7m to £181.2m; profits on property disposals rose from £859,000 to £2.98m.

● COMMENT

Yesterday's figures were of academic interest only, and this was duly reflected in the enlarged group's share price, which closed up a mere 1p to 161p. Consummate communicators though they are, Mr Long and Mr Michael Guthrie (chairman) held no meetings for analysts or journalists, presumably in order not to bore everyone rigid by repeating the argument that won the bid: that they know how to run the business better than the for*mer Pleasurama management.* They are making themselves felt: holding meetings for middle management, making administrative changes and rationalising the business where necessary, as in the decision to close the chain of ten Pastamania restaurants over the weekend. In time, this effort ought to translate itself into pre-tax profits of £110m for 1989, putting the shares on a prospective multiple of around 10. It is odd that the rating for the combined group should be lower than for either of the companies in their former state: with the benefits of the merger still to feed through, the shares are arguably undervalued.

US acquisition boosts VPI profits to £14m

By Andrew Hill

A FULL year's income from the Carter Organisation, a New York PR company bought in June 1987, boosted pre-tax profits at VPI Group, the financial and corporate communications consultancy, from £4.14m to £14.1m in the year to September 30.

VPI, formerly Valin Pollen International, said it was examining possible acquisitions in Tokyo, as well as moves into Zurich, Frankfurt and Paris.

Carter contributed 58 per cent of operating income, which more than doubled to £33m (£15.5m). Mr Reg Valin, VPI's chairman, said existing UK subsidiaries had also received business from Carter's clients, with 58 corporate customers now using three or more VPI companies.

Turnover rose from £33m to £60.4m and earnings per share from 8.3p to 18.3p.

Mr Valin said the stock market crash in 1987 had had a minimal effect on the group's performance. He said VPI had closed its small direct marketing operation, started in April 1987, following a poor performance in the slack market, but the investor relations arm of the group, which represented 57 per cent of the year's income, had continued to grow.

However, Mr Valin added that he was still dissatisfied by the performance of the group's share price, which, if adjusted for a share split in September, has not topped 167p since the crash, compared with a high of 273p before October 1987. Yesterday, the shares rose 2p to 137p.

VPI is recommending a final dividend of 2.5p, making a total of 3.5p.

The group also announced a restructuring of its US operations with Mr Don Carter, chairman and chief executive of the Carter Organisation, succeeding Mr Valin as chairman of VPI (North America). Mr Carter will spearhead VPI's US acquisition strategy.

● COMMENT

It was perhaps unfortunate that VPI should produce its results on the same day as Morgan Grenfell reinforced the view that financially-based *jobs and services are inherently* unstable in a weak market by making 450 staff redundant. That perception is still depressing VPI's share price despite the evidence in these results that good investor relations, the core of the group's business, are as important to bears as to bulls. September's restructuring of the deferred performance-related payments for Carter means VPI's earnings will not be diluted by the issue of shares next year, and the $25.3m payment due in January should be covered by cash flow from the existing business. Most of the 1987-88 increase was due to Carter's contribution and analysts are forecasting pre-tax profits of about £17m in 1988-89. However, on a prospective multiple of about 6, the patient investor should hold onto the shares, despite the blight on the marketing services sector.

Reliant ahead

Reliant Motor, USM-quoted motor vehicle maker, raised pre-tax profits by £19,000 to £172,000 for the year to end-September 30. The company also announced proposals to change its name to Reliant Group.

Turnover was just ahead at £12.67m. A maiden dividend of 0.5p is recommended.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the subdivisions shown below are based mainly on last year's timetables.

TODAY

Interims- Allied Colloids, Avesco, Birmingham Mint, British Land, Dominion Int, Evans of Leeds, Goodman, Hazlewood Foods, Latham (J), Oceonics, Salvesen (Christian), Tams (J), York Trust, Zambia Cons Copper Mines.

Finals- Albion, Avon Rubber, BTP, Bass, City Site Estates, Grainger Trust, Hanson, Saatchi & Saatchi.

FUTURE DATES

Interims-	
Berkeley	Dec 9
Brookmount	Dec 13
Compco	Dec 12
Debenham Tewson Chinnocks	Jan 12
Empire Stores	Jan 17
Expleura	Dec 19
Geevor	Dec 9
Great Universal Stores	Dec 6
Lovell (GF)	Dec 19
Northamber	Dec 15
Property Trust	Dec 14
Smith New Court	Dec 8
Finals-	
Carlton Communications	Dec 12
Deelkraal Gold Mining	Dec 13
Doornfontein Gold Mining	Dec 13
Driefontein Consolidated	Dec 13
Gold Fields Coal	Dec 8
Greenall Whitley	Dec 9
Hawtin	Dec 9
Kloof Gold Mining	Dec 13
Libanon Gold Mining	Dec 13
Reliant Motor	Dec 6
United Scientific	Dec 14
Wheecoe	Dec 9
Venterspost Gold Mining	Dec 13
Vlakfontein Gold Mining	Dec 13

Canadian groups reveal 4.3% stake in Ultramar

By Ray Bashford

CANADIAN GROUPS, acting together, have acquired a 4.3 per cent holding in Ultramar, oil production and distribution group.

The stake, of 14.8m shares, has been acquired through Noverco and Unigesco, both quoted Canadian companies, and Banque Paribas.

The identity of the beneficial owners of the shares was revealed after Ultramar issued a Section 212 notice under the Companies Act.

Noverco has the largest stake and is controlled by a Mr Dutil, who is known to the Canadian directors of Ultramar, while Unigesco is headed by a Mr Nadeau.

Ultramar said it welcomed all new shareholders because they were expressing confidence in the group's future and had no reason to believe they had hostile intentions.

Sir Ron Brierley, the New Zealand businessman, has a 14.1 per cent stake in the company which has been the target of bid speculation.

Eldridge Pope static at £3.5m

Profits growth at Eldridge Pope, Dorchester-based brewer, was restricted to just 3 per cent at the pre-tax level in the 12 months to September 30.

The outcome of £3.5m (£3.4m) was arrived at after increased financial charges of £246,000 (£155,000) and exceptional items of £155,000 (nil). Turnover expanded 12 per cent to £35.2m (£31.38m).

Property profits amounted to £1.26m, up from £188,000 last time, and were again taken below the line in accordance with the group's conservative accounting policy.

Earnings per £1 share rose 10 per cent to 29.7p (27p). A recommended 2-for-1 subdivision of shares will be followed by a 1-for-4 scrip issue.

A final dividend of 5p is proposed, making 9p (7.75p).

UK COMPANY NEWS

Safeway boosts Argyll to £100m halfway

By Maggie Urry

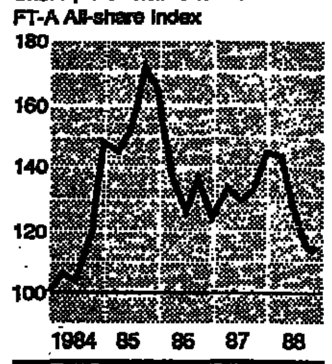
ARGYLL GROUP, which owns the Safeway, Presto and Lo-Cost food retail chains, yesterday reported further progress in its programme to develop Safeway as its major profit earner. Interim pre-tax profits, before the exceptional costs of converting Presto stores to the Safeway format, were 24 per cent higher at £100.2m. The shares rose 5½p yesterday to close at 166½p.

Mr Alistair Grant, chairman and chief executive, said excellent progress was being made with the development of Safeway, acquired in February 1987, and is a much better "brand" than Presto, Argyll's existing chain. By March 1991 it is planned that the group will have 400 Safeway stores, making 85 per cent of group sales.

The current year was the period of maximum strain, he said, as the number of new Safeway stores, including conversions of Presto stores, would be at a peak in relation to the number of existing ones. The group was perpetually checking that Safeway was maintaining its reputation for quality and service, Mr Grant said.

Seven Presto shops were converted to Safeways last year, and these "continue comfortably to achieve the planned doubling in store profit contribution", Mr Grant said. A further 33 were converted in the first half to October 15, by which time there were 214 Safeway stores. These were taking a little longer to achieve the profit realisation. Another 22 conversions will be made in the second half.

Five new Safeway stores were opened in the first half with 17 due in the second, and 20 in each of the next two years. Safeway's sales were over 50 per cent higher at £1bn, 53 per cent of group sales of £1.9bn, up 12.8 per cent.



In like-for-like stores Safeway showed a 3½ per cent volume gain. Sales in the Presto and Lo-Cost chains were up by 5 per cent on a like-for-like basis, although as Presto shops are being converted or closed its total sales are falling.

During the half year Lo-Cost, a chain of small, discount shops, had an additional 64 shops converted from Presto, taking it to 332 stores. A further 36 conversions are planned for the second half, and there should be 400 Lo-Cost shops by March 1990.

Group operating profits were ahead by 16.9 per cent to £89.4m. The group has net cash of £110m, which contributed interest receivable of £10.8m (£4.3m) even after providing £1.3m (nil) of interest which would become payable if holders of the group's convertible bond exercised their put option in 1992.

After the exceptional item of £16.8m (£5.4m), pre-tax profits were up by 10.6 per cent to £83.4m. Mr Grant said the acceleration of the Safeway programme would mean exceptional costs in the current year of £30m, not the planned £26m. But in the next two years these costs would total £16m not £20m as previously predicted.

Earnings per share on an actual tax basis and before exceptional costs were up 22.6 per cent to 7.6p. After exceptional costs, they rose 10.5 per cent to 6.3p. The interim dividend is increased by 16.7 per cent to 2.1p.

See Lex

Compass moves towards main market with £158m valuation

By Philip Coggan

COMPASS, the contract catering, health care and building services group, is joining the main market via an offer-for-sale just 18 months after it was formed through a management buy-out from Grand Metropolitan.

The offer values Compass at just under £158m and will result in five members of the management team becoming paper millionaires. Most of the team was appointed by Grand-Met in 1984 following a year in which Compass merely broke even. Since then the management, led by chief executive Mr Gerry Robinson, has eliminated many unprofitable overseas contracts, reduced staff and installed information controls at the building services subsidiary and expanded the health care division.

Pre-tax profits rose from £5.9m in the year to September 25 1985 to £24.7m on turnover of £277m last year. At the offer price of 245p per share, the historic price/earnings ratio is 12.6. The notional gross dividend yield is 3.9 per cent.

Around 75 per cent of the group's profits come from its contract catering division. It provides a catering service in 2,200 cafeterias, canteens and restuarants. The company prices much of its business on a cost-plus basis, thus protecting margins. Compass believes there is plenty of growth in the market.

The health care division operates six private hospitals, in the Midlands and south of England. Average bed occupancy rates are currently 58 per cent, but some of the group's hospitals have 70 per cent occupancy.

The third part of the group, Rosser & Russell, installs heating and ventilating units, offers design services and operates maintenance contracts. It has moved into profit in the last two years.

Some £80m is being raised, after expenses, under the issue which is underwritten by Lazard Brothers. Included in the figure is some £24.8m which institutional investors, who owned redeemable preference shares, are reinvesting in the form of ordinary equity.

The rest of the proceeds will largely be used towards the £100m debt incurred at the time of the buy-out. None of the directors is selling any shares.

Applications close on December 13 and dealings start on December 21.

● COMMENT

Those worried by the management buy-out mania might briefly look askance at Compass – even after the proceeds of this issue, the company will have a negative net worth – its borrowings will be greater than shareholders' funds. However, interest cover is more than four times and the group's cash flow is strong – £15.1m last year. The real problem for Compass is not its debt, but the current state of the stock market. Steel may be away safely, though to a puny premium, but a large chunk of the attractive-looking Betacom issue was left with the sub-underwriters last week. However, Compass is an attractive business with good quality of earnings from catering and substantial growth prospects in catering and in health care. Assuming earnings growth of more than 25 per cent this year, the prospective p/e falls to 10. The issue ought to be snapped up, economic calamities permitting.

Reed Executive rises 20% to £6m

By Vanessa Houlder

REED EXECUTIVE, employment agency group, yesterday announced a 20 per cent rise in pre-tax profits to £6m against £5m for the six months to September 23. The results, which were scored on turnover of £57.9m compared with £44.9m showed a reduction in margins stemming from a large increase in advertising costs.

Mr Alec Reed, chairman, said that since July there had been a downturn in both vacancies and job applicants.

He warned that this trend would take its toll on the results for the second half. Profits for the year were expected to be marginally ahead of last year, he said.

In the first half, Reed increased its advertising budget from £3m to £3.75m. Mr Reed said he doubted that the extra advertising had an effect on turnover, therefore the budget for the second half would be pared back to £3m.

Head office costs are expected to rise by £500,000 in the second half as a result of investment in training, accounts and mailing facilities.

Interest receivable increased by 11 per cent from £224,000 to £248,000. Earnings per share rose by 20 per cent to 7.1p (5.9p). An interim dividend of 0.6p (0.5p) was declared.

● COMMENT

Reed's sensitivity to the state of the economy is reflected in the steady decline in its share price – which has dropped by a third since July. In an uncertain economic climate, security-conscious employees are reluctant to change jobs, which diminishes the number of applicants and vacancies alike. Accordingly, Reed may face declining turnover, which in a business with high fixed costs, has a drastic effect on profits. This somewhat gloomy picture is further dulled by the spectre of Reed's losses of the early 1980s – although without the burden of debts and its troublesome drugstore subsidiary. history seems most unlikely to repeat itself. Assuming that Reed musters £11m for the full year, the shares, up 1p to 146p, are on a price/earnings multiple of 11. Given its tendency to fluctuate in step with the perceived health of the economy, the rating seems unlikely to improve in the short term.

Sniping erupts again in Avdel bid

By Nikki Tait

SNIPING IN the £102m bid between predator US-based Banner Industries and Avdel, the UK fasteners group, flashed again yesterday as the bidder claimed control of 32.55 per cent of Avdel's shares.

The 80p-a-share offer has been extended to December 19.

The level of the acceptances at the second close is marginally higher than the 31.56 claimed two weeks ago. However, the bulk of the figure is accounted for by Banner's option over 26.4 per cent of the voting rights - the option having been bought from Suter, the industrial conglomerate, over the stake it had amassed. In addition, the bidder owns a further 1.7m ordinary shares (about 1.3 per cent of the votes) while its associate, Transcontinental Services Group holds 1m shares.

Within the 32.55 per cent figures, there are a number of shares for which the bidder has not yet recieved valid cover. These include the Transcontinental stake and the cumulative redeemable preference shares, which are held by one institution and represent 1.32 per cent of the votes.

Last night, however, Avdel claimed the level of acceptances was "miserable". Its advisers, S. G. Warburg said they had written to Banner's advisers, Henry Ansbacher, asking them to confirm or deny whether Mr Jaques Murray, the Nu-Swift chairman who has been a recent buyer of shares in Avdel on a personal basis - before selling a small part of the holding at a lower price - had accepted the offer.

Last night, Ansbacher said that it was not certain, but suspected Mr Murray's interest did not form part of the current acceptances.

Booth Industries

Booth Industries lifted taxable profits by 84 per cent to £241,703 in the half year to September 30. Turnover rose 58 per cent to £13.31m.

The interim dividend is raised to 0.6p (0.375p).

Gross margins up at Anglia Homes

By Andrew Taylor, Construction Correspondent

PRE-TAX PROFITS of Anglia Secure Homes, the UK's second largest developer of retirement homes, leapt 94 per cent to £7.51m in the 12 months to end-September.

Turnover increased by 43 per cent to £37.11m as the company took advantage of a dramatic surge in UK house sales this year.

Big increases in house prices during the year had allowed the group to increase gross margins from 22 per cent to 32 per cent. Its finances were in good shape with borrowings representing only 26 per cent of shareholders funds following October's £21.6m rights issue.

Mr Peter Edmondson, chairman, said the company had so far escaped the slow down this Autumn in the housing market in south east England. The company sells as far north as Leicester and as far west of Exeter.

Earnings per share more than doubled to 34.5p. A final dividend of 2.25p makes a total of 4p (2p).

● COMMENT

The retirement homes market appears the most secure against any downturn in the housing market due to higher interest rates. The average age of purchasers of Anglia homes is 73. Many will be cash buyers already owning their home outright and therefore distanced from the immediate impact of higher home loans. Prices should face less pressure than for other types of new homes. Moreover, the retirement market is likely to increase as individuals live longer and the number of retired people make up an growing proportion of the population. The market is becoming more competitive as some of the large volume builders seek new opportunities but is unlikely, says the company, to keep pace with demand. The company's reasonably low gearing is also in its favour during a period of relatively high interest rates – although not as high as rates of 17 per cent faced by the company when it started in 1983. At 363p, Anglia is on a prospective p/e of 8.6 on earnings of 41.9p next year. This puts the company justifiably at the top end of the ratings for housebuilders.

DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Corres - ponding dividend	Total for year	Total last year
Anglia Secure ....fin	2.25†	Feb 10	1.3	4	2
Argyll Group ....int	2.1	-	1.8	-	5.3
Atkins Bros ....int	3.3	Jan 20	3	-	10
Bogod-Pelepah ....int	0.1	-	0.1	-	0.32
Bogod-Pelepah A ....int	0.2	-	0.2	-	0.64
Booth Inds ....int	0.6	-	0.375*	-	1.375*
Coalite ....int	2.75†	Feb 6	2.5	-	9.8
Cont Stationery ....int	0.9†	Feb 1	0.75	-	3
Cronite ....fin	2.5	Apr 1	nil	3.5	nil
Crosby (James) ....int	1	Apr 6	0.6	-	2
Eldridge Pope ....fin	5	Jan 21	4.25	9	7.75
General Electric ....int	2.15	Mar 31	1.8	-	6.5
Harland Simon ....int	1	Feb 6	0.6	-	2.4
ITL ....int	nil	-	0.4	-	2
Learmonth § ....int	0.6	Feb 6	0.5	-	1.7
Leeds Group ....fin	5.3	-	4	8	6.25*
Leopold Joseph ....int	3.1	Jan 6	2.812	-	14.383
Logitek ....int	1.2	Mar 24	0.9	-	2.7
MS International.......int	0.9†	Feb 7	0.75	-	3.3
Mecca Leisure ....fin	2.75	-	2.15	4.5	3.65
Northern Foods ....int	4.75	Feb 24	4.25	-	10
Reliant Motor § ....fin	0.5	-	-	0.5	-
S&P Return Asset ....int	1.96	Dec 31	1.82	-	3.87
TGI ....int	2	Jan 19	nil	-	2.4
Trafalgar House ......fin	8.8☆	-	8	16	14.5
VPI Group ....fin	2.5	-	0.75	3.5	1.125
Yellowhammer ....int	1	-	0.75	-	2.5

Dividends shown pence per share net except where otherwise stated. *Equivalent after allowing for scrip issue. †On capital increased by rights and/or acquisition issues. §USM stock. §§Unquoted stock. ♦Third market. ☆Carries scrip option.

UK COMPANY NEWS

Northern Foods up 14% to £39m

By Lisa Wood

NORTHERN FOODS, Hull-based convenience food group yesterday announced pre-tax profits 14 per cent higher at £39.3m for the half year to September 30.

Mr Christopher Haskins, chairman, said: "Christmas trade is well ahead of last year and we are confident of progress in the remainder of the year."

Earnings per share were up by 14 per cent to 12.45p and the interim dividend is lifted to 4.75p (4.25p).

Northern, in which Hazlewood Foods has a 3.4 per cent stake, is divided into four trading groups: dairy, convenience foods, meat and grocery. Group turnover at £511.2m showed an increase of just one per cent which Mr Haskins said was affected mainly by the franchising of milk rounds, disposals during the previous year and the elimination of less profitable turnover in the meat and grocery division.

Operating profits from the UK and Irish businesses increased to £39.9m (£33.2m) as margins improved from 6.7 per cent to 7.8 per cent. North American profits, at £400,000 (£1.6m), reflected the disposal of US interests in the second half of last year.

The dairy group, operating in a mature market,improved operating profits by 13 per cent,to £18.7, with reductions in sales income from milk rounds more than offset by cost reductions.

The convenience foods group's operating profits increased by 27 per cent to £5.7m in line with a 26 per cent sales increase to £99.8m. Prepared meals – with Marks and Spencer the major customer – showed good growth.

Rationalisation continued in the meat group with operating profits increasing by 43 per cent to £9.6m on sales down six per cent to £118.1m. The latter reflected a disposal and the slimming down of the problematic Bowyers' van selling operation.

Christopher Haskins — Christmas trade well ahead.

The grocery group, with its Fox's brand, increased operating profits by 7 per cent to £5.2m on sales down two per cent.

● COMMENT

Making money from declining markets like milk and meat pies and looking for growth in the dedicated supply of convenience foods to pernickety retailers is hard work. But Northern is running reasonable hard now with its nerve recovered from unhappy experiences in the US. Rationalisation continues – with Bowyers transformed into a profit contributor – in tandem with substantial capital investment in growth areas. Opportunities for expansion onto the Continent and in the US are being carefully considered. Analysts are looking for around £86m for the full year giving a prospective p/e of 10.

Coalite edges ahead by 11% to £19.4m

COALITE GROUP, the smokeless fuel, oil and chemical distribution company headed by Mr Eric Varley, former Labour minister, yesterday reported an 11 per cent expansion to £19.39m in pre-tax profits for the half year to September 30.

The advance from £17.51m was achieved on turnover also 11 per cent ahead at £325.3m (£291.85m). Operating profits advanced some 22 per cent to £17.06m (£14.02m).

Mr Varley said sales of Coalite smokeless fuel showed a small reduction, mainly due to the proportionately higher stocks held by merchants following last year's mild winter.

Similar conditions restricted the group's annual profits rise to just 6 per cent at £45.53m in the full year to end-March 1988.

The integration of the separate fuel oil distribution businesses of Charringtons and Hargreaves was now complete, butReid Holdings, acquired last year, faced strong competitive pressures and had experienced a difficult summer.

Coalite Oilex remained depressed by weak crude oil prices, but long-term prospects remained excellent, he stated.

Full year results would inevitably depend upon the severity of the winter weather, Mr Varley said, although he felt the group's broader spread of interests and better balance between energy and non-energy activities gave cause for optimism.

After tax of £6.59m (£6.3m) on a reduced rate of 34 per cent, earnings per share rose to 13.05p (11.45p). The interim dividend is raised to 2.75p (2.5p).

● COMMENT

In line with expectations, the results nevertheless provided a few pleasant surprises, mostly in terms of things which could have been worse. Coalite made good progress in shifting high stocks of smokeless fuel left over from last winter. Margins improved both at the merged Charringtons-Hargreaves fuel oil distribution business and the small 35-outlet chain of builders' merchants. On the other hand, suspension of oil production from the Claymore field, because of Piper Alpha, reduced profits by about £250,000. Assuming full-year profits of £52m and a lower tax charge of 34 per cent, the shares stand on a prospective multiple of 9.2. They should continue to trade roughly in line with the market, but a lot depends on the weather over the next few months.

Textile market buoyancy boosts Leeds

By Alice Rawsthorn

LEEDS GROUP, which has interests in textiles and finance in Yorkshire, has increased annual pre-tax profits by 35 per cent from £3.55m to £4.81m, reflecting the buoyancy of the wool textile and motor insurance markets.

Mr Robert Wade, chairman and managing director, said that every area of activity fared well during the year. He warned that the textile trade might be more sluggish in 1989, but was confident that the group's businesses would be able to withstand a downturn in demand.

Group sales rose to £29.1m (£22.18m) in the year to September 30. Earnings per share increased to 31.8p (24.8p) and an interim dividend of 8p (6.25p) has been declared. The share price was unchanged at 325p yesterday.

During the 1980s the group has expanded from its traditional base as a finisher of wool textiles into finance by setting up Leeds Leasing, which provides financial leases to small businesses, and West Yorkshire Insurance, a motor insurance underwriter. It has also diversified within textiles in the past two years by buying two cotton printing companies.

The textile division, which is still the largest part of the group, achieved record sales and saw profits rise to £4.1m (£3.3m). The wool textile industry has been very buoyant for the past year or so, in both its domestic and overseas markets.

Most of the £1.7m capital expenditure was devoted to textiles, chiefly to printing to change the emphasis from apparel to furnishing fabrics.

The group plans to spend a similar sum on capital expenditure this year. Mr Wade said that it intends to stage further acquisitions within textiles, probably in the finishing area.

Leeds Leasing has expanded rapidly in recent years, reflecting growth in demand from the small business sector, and has seen profits increase to £314,000 (£209,000).

After a few lacklustre years in the motor insurance market, West Yorkshire Insurance experienced rapid growth last year. Its contribution to pre-tax profits rose to £403,000 (£70,000).

Mr Wade said that despite the "warning signs of a stronger pound and higher interest rates" the group should be able to cope with the prospect of more difficult trading conditions for textiles in the New Year.

NatWest to acquire French stockbroker

By David Lascelles, Banking Editor

NATIONAL Westminster Bank confirmed yesterday that it was to buy Sellier SA, a French stockbroking firm, as part of its strategy of expanding investment banking in Europe. The deal would be concluded in the early part of the new year. Purchase price was not disclosed.

Sellier, which has 150 employees and seats on both the Paris and Lyons stock exchanges, ranks number 12 in France in terms of stock exchange turnover. Long a family-owned business, its main activity is broking equity securities to institutions in France and overseas, though it also has a bond business.

Mr Terry Green, chief executive of County NatWest Investment Bank, said the acquisition would enable NatWest to expand its investment banking activities in France, alongside those of the commercial bank, which now has 12 branches there. "It will also enhance what we are trying to do in Tokyo and New York," he said, referring to NatWest's global strategy.

Mr Green added that NatWest had spent a considerable amount of time studying the Sellier acquisition, and was satisfied that it was a high quality, profitable firm that would not require further injections of capital. He said Sellier had decided at an early stage that it wished to be bought by a foreign institution in order to extend its international activities.

Sellier will continue to be run by its existing team, under Mr Patrick Poupon as chief executive, and Mr Bertrand Ducreux. The retiring chief executive, Mr Patrick Sellier, will remain a consultant.

Mr Pierre Esteva, who runs Natwest's investment banking activities in Paris, will be appointed to the Sellier board. Other members of the board will be Mr Robert Allemon, chief executive of NatWest Bank SA, and Mr John Chiene and Mr Giles Vardey of County NatWest Woodmac, NatWest's equity securities operation in London.

Improved margins lift MS Intl and order books remain strong

By Clare Pearson

MS INTERNATIONAL, defence and engineering group, yesterday announced results for the 26 weeks to October 29 showing pre-tax profits up 42 per cent to £1.85m.

Following the £12.5m sale in July of the mining equipment side to Dobson Park Industries, which earlier in the year made a full bid for MSI, turnover was down at £15.65m (£21.54m). Operating margins improved by more than three per cent to 11.7 per cent.

Mr Michael Bell, chairman, said the results clearly illustrated a significant improvement in the quality of earnings.

He said the second half had started well with strong order books on both the defence and mechanical engineering sides.

Profits and turnover were split roughly equally between the two remaining divisions. Hughes Engineering, specialist fire-fighting equipment concern acquired in May, put in a better-than-expected contribution.

Mr Bell said he was "very optimistic" about MSI's chances of obtaining a big order from the US navy for stabilised gun mountings. The Navy, with an ultimate requirement for up to 600 units, could make a decision next spring.

Similar gun mountings being supplied to the Royal Navy are sold at about £400,000 a time.

The sale of the mining equipment division, which gave rise to a £1.68m extraordinary profit in these figures, meant cash balances at the period-end had risen to about £4m.

Mr Bell said MSI continued to look at acquisitions though a big order, such as that from the US, would clearly absorb the cash balances.

Earnings per share rose to 4.3p (3.4p). The interim dividend is lifted to 0.9p (0.75p).

● COMMENT

Since these figures belied some people's assumption that in the year after MSI fought off a bid results were bound to be dull, the shares rose modestly yesterday. However, not everyone thought there was any reason to get excited and forecasts for full-year pre-tax profits vary quite substantially between £4.4m and £4.8m. Clearly, given the gloomy reports emerging from mining equipment companies at the moment, the sale of that side of the business, at what was generally seen as a full price, looks more and more fortunate. Meanwhile, the rump of the company has full order books and cash in the bank. But it is too early to assume the US order is in the bag at the moment. The prospective p/e is just 10, or nearly 12, depending on which end of the range you choose.

Strong midway advance for Harland Simon

STRONG advances were registered at Harland Simon Group, electrical, electronic and computer systems designer, in the six months to September 30. Pre-tax profits surged from £402,000 to £1.13m on turnover ahead from £5.99m to £13.97m. Earnings also rose strongly to 5.1p (1.8p).

An increased interim dividend of 1p (0.6p) is being paid.

Mr David Mahony, chairman, said there was strong organic growth during the period and also contributions from acquisitions. F & H Controls, acquired in the summer, had put in an encouraging performance following a management restructuring. It was expected to make a modest contribution this year. An external debt generated by the purchase would be cleared by the planned sale and leaseback of the F & H building.

Minor contributions were also expected from Electroflyte and NEF, acquired at the end of the period.

It was announced in September that Mr Birol Nadir, eldest son of Mr Asil Nadir, chairman and chief executive of Polly Peck International, had increased his holding in Harland Simon to 20.94 per cent.

Logitek rises by 41% to over £1m

Logitek, computer equipment distributor, increased pre-tax profits by 41 per cent from £892,000 to £1.26m in the six months to September 30 1988.

Turnover was up 39 per cent to £13.03m (£9.35m) and operating profit rose to £1.25m compared with £876,000 last time. Interest receivable fell to £29,000 (£36,000), while interest payable was static at £20,000.

After tax of £441,000 (£312,000) earnings per 5p share worked through at 7.07p (5p). The interim dividend is raised to 1.2p (0.9p).

The directors expected that the company's strategy would meet the changing expectations of customers and lead to further profitable growth.

Cronite surges by 78%

ORGANIC growth together with acquisitions and escalating raw material prices enabled the Cronite Group to lift profits by 78 per cent to £1.87m pre-tax for the year ended September 30.

A final dividend of 2.5p makes a total a total of 3.5p (nil).

Turnover more than doubled from £17.79m to £39.26m. The group processes alloys and nickel alloy manufactured products. It also has interests in steel stockholding.

The directors pointed out that escalating raw material prices, especially of nickel, and the development of major new low alloy businesses at Cronite Alloys, caused much of the increase.

They added that the group, which ended the 1982-83 year £1.23m in the red, would continue to build on the progress made by generating growth both organically and by acquisitions.

Ricardo buys ITI to step up its US presence

By Clay Harris

Ricardo Group, Sussex-based designer of engines and transmissions, is to step up its US presence with the purchase of Integral Technologies (ITI).

The Chicago company specialises in services relating to engines and engine-driven power, including development and sale of computer-aided engineering software packages.

Dr Douglas Taylor, Ricardo chairman, said ITI would provide Ricardo with an established US base for its engine operations – parallel to that already provided for transmissions by Ricardo-Tuck in Michigan and Indiana – and give access to US government and military contract work.

Ricardo is to pay an initial $900,000 (£490,000) for ITI, with an additional $820,000 payable over three years, linked in part to performance. ITI reported unaudited pre-tax profits of $170,000 for the 10 months to October 31.

Strong trading boosts James Crosby profit

James Crosby Group, housebuilder based in the north west, said strong trading had continued in the six months to September 30. This resulted in strong advances in sales and profits.

Sales rose from £3.89m to £6.71m and pre-tax profits from £797,000 to £1.29m. An increased interim dividend of 1p (0.6p) has been declared on earnings of 7.7p (10.2p).

Mr Michael Burgess, chairman, said further land had been added to the significant land bank in anticipation of continued buoyancy in the northern market. There had been an upturn in sales at sites being developed in West and North Lancashire.

Pacer Systems sheds Sea Data

By Clay Harris

PACER SYSTEMS, US defence contractor traded on the USM, is to pull the plug on its troubled Sea Data subsidiary, manufacturer of underwater sensing and recording devices.

Pacer had signalled Sea Data's difficulties last August, when it reported sharply lower interim profits. Subsequent efforts to stimulate sales had not produced a lasting increase in order books, which now stood at only 20 days' work.

Mr Jack Rennie, chairman, said yesterday that operating losses from Sea Data were expected to amount to $900,000 (£490,000) in 1988, after a deficit of $450,000 in 1987, the year Pacer bought the company's assets for $1m.

Although the closure was disappointing, Mr Rennie said: "The directors just felt that we made a mistake with this company." In March, he had predicted that Sea Data would break even, or perhaps show a small profit, in 1988.

Mr Rennie said he expected Pacer as a whole still barely to stay in the black in 1988, compared with a pre-tax profit of $2.06m last year. In contrast to the situation at Sea Data, Pacer's core defence business has record order books of $62m.

The closure will lead to an $1.4m extraordinary charge for 1988 and to the loss of about 15 jobs at Sea Data's offices at Newton, Massachusetts. As a result, shareholders' funds are likely to fall by about 20 per cent to $4m.

After the announcment, Pacer shares were 1p lower at 81p, compared with its placing price of 170p in June 1985.

TGI expands to £1.64m in first half

TGI, the loudspeaker and consumer goods group which joined the main market last January, yesterday reported taxable profits of £1.64m for the six months to end-September.

The outcome compared with profits of £1.05m for the equivalent period last year and £2.55m for the full year to March 31 1988.

The group, which takes in the Goodmans, Tannoy and Mordaunt Short names, lifted turnover from £16.57m to £20.98m. After tax of £475,000 (£314,000) and unchanged minorities of £13,000, fully diluted earnings per share worked through at 6.7p (5.7p).

The interim dividend is set at 2p.

Osprey £3.3m purchases

By Vanessa Houlder

OSPREY Communications has taken a further step towards creating a broadly-based marketing services group, with the acquisitions, announced yesterday, of Acute-Marketing & Communications for a maximum of £1.55m and Creative Sales, for a maximum of £1.75m.

It also launched a £559,000 placing and open offer to shareholders.

Acute, Birmingham-based advertising agency, is expected to enhance Osprey's regional network. It is being bought for an initial payment of £550,000 in shares, to be followed by an additional sum dependent on profits.

Creative Sales, London-based sales promotion agency, is costing an initial £367,000, in cash and paper, again with further profit dependent payments.

Under the open offer, shareholders are invited to buy 755,406 new shares not being retained by the vendors at the placing price of 74p per share on the basis of 11.76 new shares for every 100.

ITL plunges into £2.52m loss

By Vanessa Houlder

A SQUEEZE on margins and a fall in computers sales plunged ITL Information Technology, mini-computer manufacturer, into a pre-tax loss of £2.52m for the 28 weeks to October 16.

The share price, which stood at 50p before ITL gave a profits warning six weeks ago, fell a further 6p to 30p.

ITL's loss, which compared with a pre-tax profit of £352,000 a year earlier, was scored on turnover of £12.99m (£14.49m).

The reduction in sales followed a lower opening order book and a disappointing level of orders for Momentum computer systems. Sales of the new Unix systems were not able to offset the decline in sales of traditional proprietary mini-computers.

By contrast, the Cablestream networks business performed well as did the combined Healthcare businesses of ITL and Silicon Lab, which was acquired in April this year.

In response to the losses, the company said that it was cutting costs and implementing productivity and project management improvements. These measures had involved a 8 per cent reduction in staff.

Orders received in the first half were up by 17 per cent, giving an order book of £16.6m (£13.1m).

Losses per share of 8.16p compared with earnings last time of 0.82p. No interim dividend will be paid (0.4p), although the company said that this should not be viewed as indicative of the final dividend.

Continuous Stationery

Continuous Stationery, printer of business forms and stationery, announced a fourfold increase in pre-tax profits from £200,000 to £802,000 for the six months ended September 30. Turnover almost doubled to £7.69m, against £3.92m.

The interim dividend is lifted to 0.9p (0.75p) payable from earnings per 10p share of 3.75p (1.67p).

Learmonth & Burchett falls

Increased development costs and reduced US royalties cut interim pre-tax profits of Learmonth & Burchett Management Services, USM-quoted computer systems consultant, from £664,000 to £373,000.

Total group turnover for the six months to October 31 rose by 15 per cent to £5.49m (£4.77m).

After tax of £131,000 (£239,000) earnings per 10p share were 2p (3.7p). The interim dividend is set at 0.6p (0.5p).

Ransomes Sims makes £2.5m French purchase

By Ray Bashford

RANSOMES SIMS & Jefferies, has furthered its ambitions for international expansion in grass cutting machinery manufacturing with a £2.5m cash acquisition in France.

The company is buying Granja, a maker and distributor of rotary mowers and garden cultivators. The purchase will boost Ransomes' share of the French consumer mower market by 5 per cent to between 6 and 7 per cent, according to Mr Bob Dodsworth, chief executive.

Granja has an assembly site near Toulouse and distributes through four retail outlets, dealers and department stores. Its products will complement Ransomes' Mountfield range and clear the way for possible rationalisation of French operations.

Granja's turnover was FFr 100m (£9m) for the year to September 30. Its profits, which were not disclosed, would cover interest charges for the purchase and make a "valuable" contribution to results for the year to June 30, Mr Dodsworth said.

Crown Eyeglass

Crown Eyeglass, manufacturer and distributor of spectacles which trades on the Third Market, saw pre-tax profits fall from £78,000 to £59,000 in the six months to September 30.

Turnover, however, rose to £1.15m (£748,000).

Earnings per 5p share were 2.4p (3.5p).

Leopold Joseph

Leopold Joseph Holdings, merchant bank, said net profits before tax for the half-year to September 30 had shown a satisfactory increase on the comparable period. The interim dividend is raised by 10 per cent from 2.812p to 3.1p.

Willis Faber scraps joint Johnson & Higgins venture

By Nick Bunker

WILLIS FABER, the insurance broker, has scrapped a five-year-old New York-based reinsurance joint venture with Johnson & Higgins, the US broking firm, after differing over its business strategy.

Willis said it will sell its 49 per cent stake in the joint venture company, Willcox Inc., back to J&H for a net cash payment of $9m (£4.8m).

This will mean that Willcox will revert to being a wholly-owned J&H subsidiary.

And Willis will buy J&H's stake in Willis Faber & Willcox.

Willcox acts as a broker arranging reinsurance on behalf of property/casualty insurers in the US.

It used Willis Faber & Willcox to place risks at Lloyd's.

The announcement came against a background of speculation in the stock market that the broader business relationship between Willis and J&H is weakening.

Willis and J&H have had a close trading partnership for more than 95 years, with Willis acting as placing broker in London for insurance business generated by J&H in the US.

Both Willis and J&H were keen to dispel any speculation that their ties were becoming weaker.

The stock market rumour has centred on suspicions that J&H is less eager to use Willis as its exclusive point of access to the London market.

Mr John Robins, Willis finance director, said the end of the joint venture was "no big deal. It was an issue of how best to serve our clients. J&H and ourselves came to the conclusion that we were probably not doing the best for them the way things were organised."

The problem with the joint venture is understood to have been that Willis and J&H differed about its goals.

Willis saw it as a means to channel more reinsurance business into Lloyd's, while J&H directors were keener to expand in the domestic US reinsurance market.

In addition, close observers say J&H felt that when placing small reinsurance risks in London it sometimes got the best service by using smaller, hungrier Lloyd's brokers than Willis.

Yellowhammer growth hit by expansion expenditure midway

By Ray Bashford

YELLOWHAMMER, advertising and marketing services group, managed a meagre £6,000 increase in pre-tax profits to £911,000 during the six months to September 30 as expenditure on expansion slowed the performance.

Reflecting the start-up costs of the programme to broaden and extend activities, net interest payments were £46,000 in the half, compared with receipts of £106,000 in the corresponding half.

Operating profits in the latest period increased 20 per cent from £799,00 to £957,000 on turnover of £24.44m (£22.55m). The interim dividend is raised to 1p (0.75p).

The results were also adversely affected by problems in senior management which preceded the departure of the joint managing directors, Mr David Gray and Mr John Ward and their replacement by Mr Tim Lefroy in July.

Yellowhammer, which has Barclays and the Government Information Office as major clients, spent £1.25m in refurbishing new offices in Oxford Street, London, partly to further its image. The company also incurred additional costs increasing staffing in peripheral activities such as publishing, financial communications and direct marketing.

Higher staff costs also came from the move into France last October through the formation of a joint venture, Paris-based Yellowhammer Delafosse.

Plans for expansion into West Germany are taking shape as part of European development with the establishment of a presence also in Italy and Spain by the end of 1990.

Initial costs were also incurred while preparing for the Fiat Britain account won in September. The account could be worth up to £17m a year, although its contribution will not have a major impact on results until the next financial year.

An analyst for Warburg Securities downgraded her profit estimate for the full year from £2.85m to £2.6m after yesterday's announcement, but forecasts a strong improvement in the following 12 months to £3.8m as results from the current expansion plan flow through.

The Directors of the Company, whose names appear under the section in this document headed **Directors and advisers**, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors, who have taken all reasonable care to ensure that such is the case, the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

A copy of this document, which comprises Listing Particulars relating to the Company in accordance with the Listing Rules made under section 142 of the Financial Services Act 1986, has been delivered to the Registrar of Companies for registration in accordance with section 149 of that Act.

Application has been made to the Council of The International Stock Exchange of the United Kingdom and the Republic of Ireland Limited ("The Stock Exchange") for all the Ordinary Shares, issued and to be issued, to be admitted to the Official List.

Compass group

COMPASS GROUP PLC

Incorporated in England and Wales under the Companies Act 1985 with registered no. 2090126

Offer by
Lazard Brothers & Co., Limited
of 24,673,550 Ordinary Shares of 5p each at 245p per share payable in full on application

Share capital following the Offer

Authorised		Issued and to be issued fully paid
£4,943,200	Ordinary Shares of 5p each	£3,222,343

The Ordinary Shares now being offered will rank in full for all dividends and other distributions declared, paid or made on the Ordinary Shares after the date on which all the Ordinary Shares, issued and to be issued, are admitted to the Official List.

The application list for the Ordinary Shares now being offered will open at 10.00 a.m. on Tuesday, 13th December, 1988 and may be closed at any time thereafter. The procedure for application, together with an application form, is set out at the end of this prospectus. It is expected that admission of the Ordinary Shares to the Official List will become effective and dealings will commence on 21st December, 1988.

Indebtedness

At the close of business on Tuesday, 15th November, 1988 the Group had outstanding indebtedness of £100.7 million comprising a secured medium term bank loan of £70 million, a secured mezzanine bank loan of £30 million, and other loans of £0.7 million. At the same date, the Group's outstanding indebtedness, adjusted to reflect the net proceeds of the Offer, amounted to £50.7 million.

Save as aforesaid and apart from indemnities of £2.3 million and intra-Group liabilities, and apart from liabilities in respect of a credit facility of £5.5 million under which loans of £0.8 million and guarantees of £1.7 million were outstanding on 15th November, 1988 which the Company is obliged to take over from Grand Metropolitan following the admission of the Ordinary Shares to the Official List, neither the Company nor any of its subsidiaries had outstanding at the close of business on Tuesday, 15th November, 1988 any mortgages, charges, loan capital (whether outstanding or created but unissued), term loans, or other borrowings or indebtedness in the nature of borrowing, including bank overdrafts, liabilities under acceptances (other than normal trade bills), acceptance credits, hire purchase commitments or obligations under finance leases, guarantees or other material contingent liabilities.

Definitions

"the Company"	Compass Group PLC
"the Group"	the Company and its subsidiaries and associated companies
"Compass"	the contract services division of Grand Metropolitan PLC up to July, 1987 and, thereafter, the business of the Group
"Compass Services"	Compass Contract Services (U.K.) Limited and its subsidiaries together with the overseas and other catering and management activities of the Group
"Compass Healthcare"	Compass Healthcare Limited and its subsidiaries
"Rosser & Russell"	Rosser & Russell Limited and its subsidiaries
"Directors"	the Directors of the Company
"Lazard Brothers"	Lazard Brothers & Co., Limited
"the Offer"	the offer by Lazard Brothers of 24,673,550 Ordinary Shares contained in this document, being as to 1,079,832 Ordinary Shares as principal and as to 23,593,718 Ordinary Shares as agent, as specified under "Offer arrangements" in Part IV
"Ordinary Shares"	ordinary shares of 5p each in the capital of the Company

Directors and advisers

Directors
Dr. Aylmer Ingram Lenton, Chairman (Non-executive)
Gerrard Jude Robinson, Chief Executive
Charles Lamb Allen
Christopher David Bucknall
Richard Dickson
David Harris
Francis Henry Mackay, Finance Director
Lawrence Nigel Guy Olsen (Non-executive)
Friedrich Ludwig Ternofsky (Non-executive)

all of Queen's Wharf, Queen Caroline Street, London W6 9RJ

Secretary
Francis Henry Mackay FCCA

Registered office
Queen's Wharf,
Queen Caroline Street, London W6 9RJ

Financial advisers
Lazard Brothers & Co., Limited,
21 Moorfields, London EC2P 2HT

Stockbrokers
James Capel & Co. Limited,
James Capel House, 6 Bevis Marks,
London EC3A 7JQ

Auditors and reporting accountants
Touche Ross & Co.,
Hill House, 1 Little New Street,
London EC4A 3TR

Solicitors to the Company
Freshfields,
Grindall House, 25 Newgate Street,
London EC1A 7LH

Solicitors to the Offer
Linklaters & Paines,
Barrington House, 59-67 Gresham Street,
London EC2V 7JA

Principal bankers
National Westminster Bank PLC,
1 St. James's Square, London SW1Y 4JX

Receiving bankers
National Westminster Bank PLC,
New Issues Department,
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London E1 2DB

Registrars
National Westminster Bank PLC,
Registrar's Department,
P.O. Box 82, Caxton House,
Redcliffe Way, Bristol BS99 7NH

Key information

The following information is derived from, and should be read in conjunction with, the full text of this prospectus.

Business
The Company was formed to acquire the contract services division of Grand Metropolitan PLC ("Grand Metropolitan"). The acquisition was completed in July, 1987 in what was the largest UK-funded management buy-out at the time.

The Group is primarily engaged in the provision of contract services to a wide range of industrial and commercial customers. Its activities are organised into three divisions:

Compass Services is the Group's major operating division and is one of the two largest contract catering businesses in the UK. It contributes approximately 75 per cent. of trading profits. It provides a comprehensive range of catering and restaurant services, together with certain other services, through approximately 2,500 trading outlets primarily in the UK;

Compass Healthcare owns and operates six modern private hospitals principally in southern England; and

Rosser & Russell is a long-established business which provides advanced mechanical and electrical contracting and maintenance services to the building services industry.

Trading record
The last five financial years have seen a marked improvement in turnover and profitability within the principal activities of the business. In the financial year to 25th September, 1988 the Group achieved an operating profit of £24.7 million against break-even for the year to September, 1984.

The trading record of the Group for the five financial years ended 25th September, 1988 is summarised below:

	1984 £m	1985 £m	1986 £m	1987 £m	1988 £m
Turnover	197.6	208.6	222.6	254.4	276.9
Operating profit	0.0	5.9	8.7	16.8	24.7

Notes
(i) The year to 25th September, 1988 was the first full year of trading following the management buy-out. Further details are provided in "Accountants' report" in Part II, from which the figures set out above have been extracted.
(ii) These results are discussed in the paragraph entitled "Financial record" in Part I.
(iii) The above figures have been compiled on the bases contained in the second paragraph of "Accountants' report" in Part II.

Prospects
The Directors' strategy is to continue to build on the success achieved to date in developing the core activities of the Group. The Group's main business, contract catering, has a diversified customer base which includes many substantial commercial and public sector organisations with long standing contracts. Its profitability and modest capital requirements enable the Group to generate substantial cash flows. The Directors believe that the market for catering and the Group's other services will continue to expand and provide opportunities for further growth.

The Group's strengthened financial position following the Offer will contribute to its ability both to pursue the development of its existing businesses and to grow by acquisition.

Against this background, the Directors expect a strong performance during the current financial year and view the longer term prospects of the Group with confidence.

Expected key dates

Latest time and date for receipt of applications	10.00 a.m. 13th December, 1988
Basis of allocation announced	14th December, 1988
Renounceable letters of acceptance despatched	19th December, 1988
Dealings commence	21st December, 1988
Last day for splitting	23rd January, 1989
Last day for renunciation and registration	25th January, 1989
Despatch of definitive share certificates	24th February, 1989

Offer statistics

Price

Offer price per Ordinary Share	245p
Number of issued Ordinary Shares following the Offer	64,446,866
Market capitalisation at the Offer price	£157.9 million
Percentage of the enlarged share capital being offered	38.3 per cent.

Earnings

Historic pro forma earnings per share for the financial year ended 25th September, 1988	19.4p
Historic pro forma price earnings multiple at the Offer price	12.6 times

The assumptions for the calculations of pro forma earnings per share are set out in the section entitled "Pro forma earnings" in Part I.

Dividends
Notional historic dividend per share (net) for the financial year ended 25th September, 1988

—interim	2.4p
—final	4.8p
Notional historic gross dividend yield at the Offer price on the basis of the notional historic net dividend of 7.2p per share	3.9 per cent.
Notional historic pro forma dividend cover per share based on the notional historic net dividend of 7.2p per share	2.7 times

Information relating to dividends is set out in the paragraph entitled "Dividends" in Part I.

Balance Sheet
A pro forma consolidated balance sheet following the Offer is set out in Part III.

Following the Offer, the Group's pro forma consolidated shareholders' funds based on the audited balance sheet at 25th September, 1988, prior to the write off of goodwill, will total approximately £119.8 million. It is the Group's accounting policy to write off goodwill, in the period in which it arises, directly to reserves. Accordingly, goodwill of £145 million which arose primarily on the buy-out referred to above is disclosed as a deduction from shareholders' funds in the consolidated balance sheet. The Group's goodwill is an intangible asset and therefore the pro forma net tangible assets of the Group following the Offer are reduced by the amount of goodwill, resulting in pro forma negative net tangible assets of £25.2 million.

The Directors believe that the quality of the Group's earnings and cash flows place the Group in a strong financial position, particularly following the injection into the Company of the net proceeds of the Offer.

The Group's consolidated balance sheet at 25th September, 1988 is set out in "Accountants' report" in Part II.

Proceeds of the Offer
Of the 24,673,550 Ordinary Shares now being offered, 23,593,718 are new Ordinary Shares being issued by the Company. The net proceeds to the Company from the subscription for these new Ordinary Shares under the Offer, after deduction of the estimated expenses of £2.6 million, are £55.2 million, which will be applied as to £35 million in repayment of the existing medium term bank loan, as to £15 million in repayment of the existing mezzanine bank loan and as to £5.2 million in redeeming the balance of the Company's redeemable preference share capital. Holders of 82.7 per cent. of the Company's redeemable preference share capital, which is redeemable on admission of the Ordinary Shares to the Official List, have elected to apply the redemption proceeds amounting to £24.8 million in subscribing at the Offer price for new Ordinary Shares.

The executive Directors and the trustees of various trusts established by them are not, for reasons of personal financial planning, selling any Ordinary Shares in the Offer. However, they intend, subject to the consent of Lazard Brothers, not to be unreasonably withheld, to dispose of up to 15 per cent. of their respective holdings (approximately 975,000 Ordinary Shares). No such sales will be effected prior to the publication, in May 1989, of the interim results of the Group for the 27 week period ending 2nd April, 1989.

PART I

History

Introduction

The Group trades through its three divisions, Compass Services, Compass Healthcare and Rosser & Russell.

Compass Services originated from the contract catering business of Midland Counties Industrial Catering Company Limited, which commenced business in 1941 and was purchased by Grand Metropolitan in 1968. In 1983, as part of a diversification programme, Compass acquired Rosser & Russell, whose business, comprising the provision of heating and ventilating services to the building industry, had been in existence for over 100 years. Compass Healthcare purchased in 1981 the first of the hospitals which it now owns and operates.

The management buy-out
In July 1987 a consortium led by the senior management of Compass and supported by 3i plc, CIN Venture Managers Limited and Prudential Venture Managers Limited acquired Compass from Grand Metropolitan at a price of approximately £163 million in what was the largest UK-funded management buy-out at that time.

The turnaround
In the past four years Compass has achieved a turnaround in its profitability, realising in the year to 25th September, 1988 an operating profit of £24.7 million against break-even for the year to September, 1984. Whilst a number of small acquisitions have been made by Compass since 1984, most of this growth has been internally generated.

The management of Compass believes that, against the background of the expanding services industry, the key to growth is the provision of high quality services to an expanding customer base. Accordingly, over recent years increasing emphasis has been placed on enhancing the skills of management and staff through appropriate training and on implementing quality assurance programmes.

At the same time, the business has been reorganised and internal controls improved to achieve more effective management. This dates back to the appointment of Gerry Robinson in July 1984 as Managing Director of Compass Services' International activities. He was appointed Managing Director of Compass in 1985, established the existing Compass management team and led the management buy-out.

Business

The Group
The following tables give an analysis of the Group's turnover and operating profit by division for the five financial periods ended 25th September, 1988:

	Year ended September,				
	1984 £m	1985 £m	1986 £m	1987 £m	1988 £m
By turnover					
Compass Services	179.4	184.9	198.9	216.3	227.4
Compass Healthcare	2.8	5.3	7.8	11.0	14.8
Rosser & Russell	15.4	18.4	15.9	27.1	34.7
	197.6	208.6	222.6	254.4	276.9
By operating profit					
Compass Services	0.7	7.7	9.6	13.8	18.5
Compass Healthcare	0.5	0.6	0.7	1.5	3.7
Rosser & Russell	(1.2)	(2.4)	(1.6)	1.5	2.5
	0.0	5.9	8.7	16.8	24.7

Compass Services

Catering activities
The principal business of Compass Services is the provision of a comprehensive range of catering services to the industrial and commercial business sectors. Compass Services is one of the UK's two largest contract caterers (the other being Gardner Merchant Limited, a subsidiary of Trusthouse Forte PLC) with over 2,200 catering outlets and around 19,000 employees. Initially, the business concentrated on providing factory canteen services to the manufacturing sector. In line with shifts in employment trends and the demand for improved services, Compass Services has expanded into the provision of cafeterias, canteens and higher quality restaurants over a range of commercial sectors (including banking, insurance and retail) as well as in schools, hospitals and leisure centres and to local authorities. As explained below, most contracts are agreed on a cost plus pricing basis and their average life is greater than 6 years.

The size of Compass Services' operations enables it to benefit significantly from economies of scale, including its purchasing power with suppliers.

Compass Services has certain minor activities overseas consisting of catering and accommodation services. Compass Services has substantially decreased its activities overseas in recent years in the course of a managed reduction.

The management of Compass Services in the UK is divided into six geographical regions. Each region is headed by a Regional Managing Director who reports to the Board of Compass Services. The Regional Managing Director is supported by regional directors to whom operating managers report. Each operating manager is responsible for controlling the quality and profitability of the contracts under his direct supervision. As well as operating existing contracts, each regional management team is responsible for sales and marketing, personnel and training and restaurant design functions. Data processing, finance, corporate advertising and purchasing support are provided centrally.

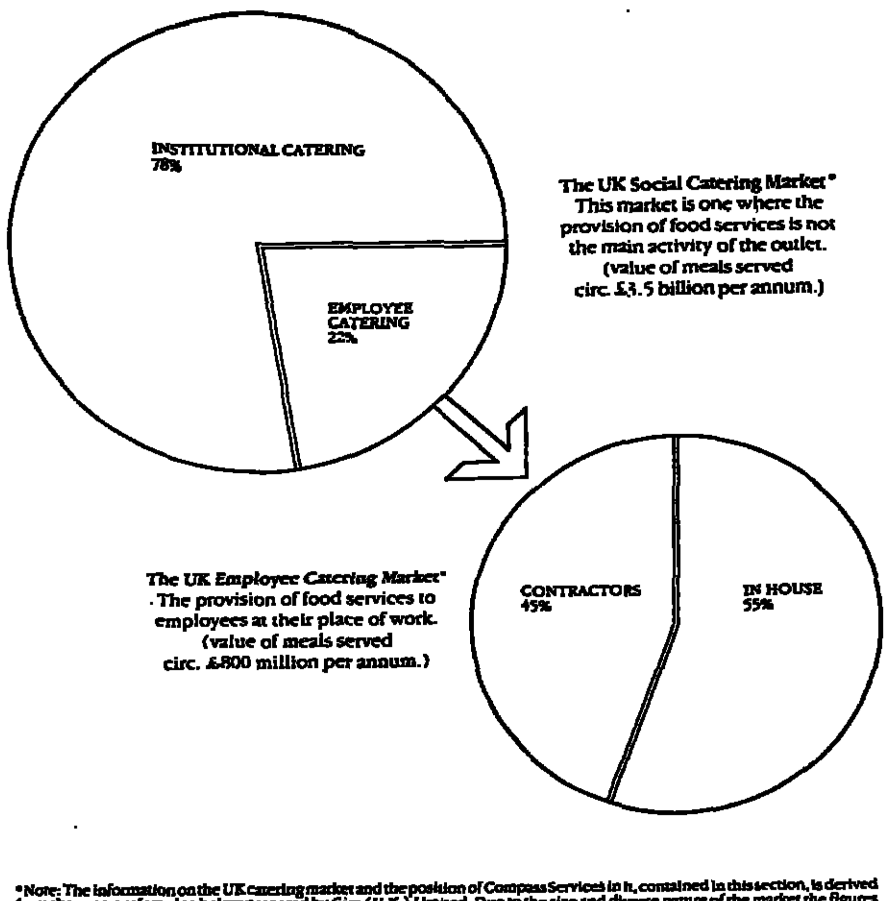
Over the past twelve months Compass Services has been directing its attention to enhancing profitability and to eliminating marginal contracts.

Compass Services has identified the key to growth as the provision of higher quality services and accordingly Compass Services has combined the implementation of a quality assurance programme with a "Healthy Eating" programme and other catering standards controls aimed at attracting new clients.

Compass Services' position in the UK catering market*
The provision of food services in the UK is a diverse market with, in 1987, over 250,000 outlets ranging from snack bars to quality restaurants. It may be divided into two segments, Commercial Catering and Social Catering. Social Catering, where catering is not the main activity of the outlet (such as factories, offices, schools and hospitals), accounts for in the order of 85,000 outlets, serving around 3 billion meals per annum. The value of meals served (i.e. the cost of food and labour) is estimated at around £3.5 billion per annum. Contract caterers operate principally in the Social Catering market. There are a large number of businesses engaged in providing catering services in the UK Social Catering market, but not more than around 40 operating more than 20 outlets. Amongst these the two largest, of which Compass Services is one, are predominant.

Compass Services operates in both sectors of the Social Catering market, namely employee catering and institutional catering, and is also engaged in specialist retail catering in the Commercial Catering

market. Employee catering accounts for 22 per cent. of the Social Catering market and is the catering market in which Compass Services principally operates. Institutional catering is an area where expansion is planned by Compass Services, whilst specialist retail catering in the Commercial Catering market is being approached on a selective basis. The relative sizes of the sectors of the Social Catering market in which Compass Services operates were approximately as follows in the calendar year 1987:



*Note: The information on the UK catering market and the position of Compass Services in it, contained in this section, is derived from the report referred to below prepared by Gira (U.K.) Limited. Due to the size and diverse nature of the market the figures are of necessity estimates but they have been included to give an indication of the size of the UK catering market and Compass Services' position in it. The figures relate to the calendar year 1987. Value of meals served represents the cost of providing the meal i.e. cost of food and labour.

Employee catering covers factories, offices, financial institutions, private research establishments and certain local government services such as the police. It has an estimated 32,000 catering outlets serving almost 600 million meals per annum, with value of meals served estimated at around £800 million. Of these outlets around 17,000, accounting for around 500 million meals per annum with a value of meals served of around £700 million, were outlets with 100 or more employees.

In 1987 contractors' share of this market by value was 45 per cent. which had risen from around 40 per cent. in 1981 and is forecast to rise to 48 per cent. in 1990 and 52 per cent. in 1995. On the basis of the report by Gira (U.K.) Limited referred to below, the Directors estimate that in 1987 Compass Services accounted for in the order of 30 to 35 per cent. of the share of the employee catering market of contractors with 20 or more outlets.

Compass Services' client portfolio for employee catering is extensive and includes major concerns such as BP Oil Limited, Shell U.K. Limited, The Rover Group plc, IBM United Kingdom Limited, Rank Xerox (UK) Limited and The Royal Bank of Scotland plc.

Institutional catering involves the provision of food services for both public and private sector establishments such as schools and colleges, hospitals and the Ministry of Defence. Until recently much of the institutional catering market was not open to outside contract caterers. Although to date contract caterers tendering for public sector contracts have generally met strong competition from the tenders of existing in-house catering teams, a number of significant contracts have recently been awarded to Compass Services and other contract caterers. The following table sets out the number of Compass Services' outlets in the institutional catering market:

	Compass Services' outlets as at 25th September, 1988
Education	124
NHS and private health care	60
MOD	17

With the change in local authority legislation effective from April, 1989, which will require local authorities to seek tenders for new contracts for catering and other services, the Directors consider that this segment offers considerable scope for growth.

Compass Services is also engaged in specialist retail catering in the Commercial Catering market. As at 25th September, 1988 Compass Services operated 79 specialist contracts in areas such as leisure centres, sports grounds, the London Zoo, the Natural History Museum, the Scottish Exhibition Centre and within department stores.

Contracts

Compass Services operates three main types of contract to suit varying client requirements: cost plus, fixed price and concession.

Cost plus contracts, which are by far the most significant, represent approximately 75 per cent. of Compass Services' total contracts. These contracts effectively operate on a cost recovery basis, in addition to which Compass Services receives a predetermined management fee, which is reviewed annually. The client provides the on-site facilities and equipment, keeping Compass Services' capital requirements low, whilst Compass Services supplies the management and trained staff required to provide the services. Although the initial period of these contracts is normally agreed for 12 months with 6 months' notice on either side thereafter, Compass Services' experience shows that the average life of such contracts is greater than 6 years. The cost plus structure of these contracts and wide customer base mean that these contracts provide Compass Services with strong cashflows and a steady profit performance. The majority of employee catering contracts are operated on a cost plus basis.

Fixed price contracts give the client a predetermined total price based upon a specific schedule of services to be provided. Where the client requests a fixed price contract Compass Services will endeavour to run the first year of the contract on a cost plus basis to establish a pattern of costs and requirements in order to determine an appropriate fixed price, subject to annual reviews, for the remainder of the contract. Compass Services' experience shows that fixed price contracts have an average life of approximately 4 years.

Concession contracts, which all fall within specialist retail catering, are entered into when Compass Services pays a concession fee or rental for the opportunities to provide catering facilities to the general public. In concession contracts, Compass Services determines tariffs.

Further activities

Other activities of the division include a design and planning service for the installation of kitchen and restaurant facilities and a manned security business.

The design and planning function was originally a customer support service ancillary to the mainstream catering operation. Over a number of years this has developed to embrace a range of activities on a national basis including the supply of utensils and crockery, the supply of industrial cooking and refrigeration equipment and the design, planning and installation of kitchen and restaurant facilities.

The manned security service was originally provided to clients looking for a combined services contractor. Due to the rapid growth of Compass Services' security operation, it is now managed and marketed independently of the catering service. The Directors believe it to be an area with considerable scope for growth. In August, 1988, Compass acquired at a cost of £8.6 million Security Arrangements Limited, a manned security business with around 600 contracts.

Note

The information relating to the UK catering market and to Compass Services' position within it has been derived from "The British Contract Catering Market and its Leading Players", July 1988 prepared by Gira (U.K.) Limited and from supplementary information supplied by Gira (U.K.) Limited to the Company.

Compass Healthcare

Activities

Compass Healthcare, which is the sixth largest commercial UK private hospital operator on the basis of the number of registered beds, owns and manages six modern hospitals in locations selected for their private patient potential. The hospitals were opened or acquired as follows:

Hospital	Location	Date opened/acquired	Number of registered beds
West Sussex Clinic	Worthing	May 1981	28
Bath Clinic	Bath	November 1982	55
Hampshire Clinic	Basingstoke	December 1984	52
Droitwich Private Hospital	Droitwich	July 1985	36
Saxon Clinic	Milton Keynes	May 1986	24
Esperance Private Hospital	Eastbourne	January 1987	50

The West Sussex and Esperance hospitals were acquired, while the other four were developed as new hospitals.

All of the units provide acute hospital services, contain operating theatres, and typically offer radiology, pathology, physiotherapy, pharmacy and consulting room facilities. Five of the hospitals provide a health screening service to the general public which is marketed as "Bodycheck". In addition, facilities are provided for day care surgery, and specialist services available at certain hospitals include colposcopy for examination of the cervix, surgical laser treatment of cancerous and pre-cancerous tissue and computer-assisted equipment for the assessment of knee disorders. The Droitwich hospital's brine pool offers facilities for hydrotherapy and spa bathing.

Compass Healthcare's position in the market

In the last ten years the independent acute medical-surgical sector has undergone radical change. Following the period of pay-bed closures implemented between 1976 and 1979, there was a rapid growth in the number of private hospitals, accompanied by a rapid expansion in medical insurance coverage. Medical insurance, which is the principal source of revenue for the sector, can be taken as a good indicator of trends. Between 1977 and 1986 the number of people covered by medical insurance more than doubled and since 1986 the number of people covered has continued to rise. The Directors believe that this sector has strong growth prospects.

Compass Healthcare's revenue is drawn as to approximately 70 per cent. from the major Provident Associations and medical insurance companies. The market penetration of medical insurance is approximately 10 per cent. nationally, providing a substantial untapped market among the uninsured population.

Along with this growth, the sector has been transformed from one served principally by voluntary and religious organisations to a more commercially oriented sector, generally offering a wider range of services.

Compass Healthcare's relationships with consultants and with the general practitioners who refer the majority of patients to them are extremely important to the continued development of the hospitals. A consultant's choice of private hospital is dependent upon two prime factors, namely hospital standards and proximity to the hospital where he or she is based. As a result the senior management and staff carry out regular reviews with consultants with the aim of ensuring the provision of the required facilities and services to the consultants' standards.

The Directors believe that, with the exception of Droitwich, none of Compass Healthcare's hospitals faces significant direct competition from other private hospitals within the Area Health Authority in which they are situated, which the Directors consider to be their normal catchment areas.

Occupancy

A major measure of the utilisation of hospital facilities is the bed occupancy rate, although it should be recognised that this does not include services provided to day patients and out-patients. Overall, in the year to 25th September, 1988, Compass Healthcare's hospitals operated at an annual level of over 58 per cent. occupancy, an improvement of over 5 per cent. on the previous year. West Sussex, Bath and Hampshire are now operating at an average occupancy rate of approximately 70 per cent. These different levels of occupancy reflect the various stages of maturity of Compass Healthcare's hospitals. The management consider an occupancy rate in the mid to high seventies to be a reasonable target. As a large proportion of operating costs are of a fixed nature, an increase in occupancy rate has a significant positive impact on operating profits.

Developments

Over the past year, several projects involving the expansion of existing sites to provide additional beds, out-patient and consulting facilities have been started.

The Directors consider that further growth from existing facilities can be achieved through initiatives such as more innovative marketing of fixed price surgery packages directly to the public as well as through GPs and consultants, and the provision by third parties of extended credit facilities to patients on fixed price treatment.

Note

The information relating to the UK private health care market and Compass Healthcare's market position has been derived from the following publications:

Laing's Review of Private Healthcare 1987, The Fitzhugh Directory of Independent Hospitals and Provident Associations 1987; Campaign Guide 1977, Independent Hospitals Association survey of Acute Hospitals in the Independent Sector 1986; "Insurance Age", October 1986, IEA Health Unit Paper No. 4 "Keeping the Lid on Costs?", September 1988, BUPA "Independent Healthcare in Britain: The Facts", MSI Database: "Private Healthcare: UK", December 1987, and BUPA 1988 Directory of Acute Facilities.

Rosser & Russell

Activities

The core business of Rosser & Russell is the provision of mechanical and electrical engineering services to the non-residential sector of the construction industry, mainly in the South East of England. The division typically acts as a sub-contractor on a building project and, after winning a tender, might itself subcontract certain parts of the work. Examples of projects in which Rosser & Russell has been involved include the National Westminster Bank Tower and the Broadgate development in the City of London, and the new passenger terminal at Stansted airport.

In addition, Rosser & Russell's services and maintenance division has seen substantial growth in the past two years. The division operates services contracts principally in the South-East of England using skilled staff either based on site or on call. The services offered include planned maintenance and management of mechanical and electrical services on premises and plant room maintenance. The range of services is extensive and is tailored to the customer's specific requirements.

Rosser & Russell's position in the market

Rosser & Russell concentrates mainly in the South-East of England, which in 1987 accounted for some 47 per cent. of all private non-residential new building services output. Although market shares in this industry cannot be determined with confidence, the Directors believe that the division is among the ten leading operators on a national basis, and, among these, is one of the most profitable.

In the year to 25th September, 1988 the division won orders to the value of £65 million, a significant increase over the previous year.

Contracts

Competitive tendering is a vital area of Rosser & Russell's business and the division has invested in recruiting skilled estimators and has a substantial database for component costing. After a contract has been handed over to the project team, a detailed operational programme will be produced and, during the life of a contract, extensive operational and financial reviews are carried out regularly with the aim of ensuring that both installation and financial targets are met.

A recent development within Rosser & Russell has been the introduction of a quality assurance programme, which aims to implement quality control in all areas of the business and thereby improve customer satisfaction.

The size of contracts in which Rosser & Russell is normally involved varies significantly. Rosser & Russell has tended to be involved in contracts up to £6 million, generally having an installation period of up to 18 months.

Developments

The Directors believe that Rosser & Russell's future market will involve significantly larger projects than in the past. The Directors believe that Rosser & Russell has the management resources to tender for and complete these larger projects.

A computer aided draughting division has been set up with the aim of improving speed and efficiency in draughting.

In 1987 Rosser & Russell established a systems technology division to enable it to offer design, implementation and management services in relation to data and telecommunications systems.

Rosser & Russell's strategy is, while pursuing its core business, to broaden its operational base by expanding the service and maintenance and the systems technology businesses.

Note

The information relating to the new building services market is derived from the Building Services Research and Information Association—Statistics Bulletin and Statistics, Market Review and Forecast for the Building Services Industry—Vol.13, No. 1 (1988).

Directors, management and staff

Directors

Dr. Ingram Lenton, aged 61, joined the Group as non-executive Chairman in 1987. After having been a Director of ICI Fibres Limited and thereafter Managing Director of John Heathcoat and Co. Ltd., in 1976 he joined Bowater Corporation and became Chairman and Managing Director of Bowater Industries plc in 1984, a position he held until 1987. He currently holds a variety of non-executive posts.

Gerry Robinson ACMA, aged 40, is Chief Executive of the Group. After having been Group Finance Director of Lex Industrial Distribution and Hire Limited, he joined Grand Metropolitan's subsidiary CC Soft Drinks Limited as Finance Director in 1980, became Sales and Marketing Director of that company in 1981 and in 1983 was appointed Managing Director. In 1984 he was appointed Managing Director of Compass Services' international activities, and in 1985 he became Managing Director of Compass.

Charles Allen FCMA, aged 31, is Managing Director of Compass Services. After working for British Steel as an accountant, he joined Grand Metropolitan's contract services division in 1983 as Director of Management Services of its overseas business in the Middle East and became successively Managing Director of Compass' vending business and of its Middle East operations prior to being appointed to his present position in 1988.

Christopher Bucknall BA, aged 38, is Managing Director of Rosser & Russell. He joined Grand Metropolitan's CC Soft Drinks division in 1973 from Tizer Limited. He remained with that company until 1986, covering the position of Director of Distribution and Production and in 1986 he was appointed Managing Director of Rosser & Russell.

Richard Dickson BSc, aged 42, is Corporate Development Director of the Group and Deputy Chairman of Compass Services. After periods with Revlon, International and Lex Service Group, he joined Grand Metropolitan in 1983 as Personnel Director of CC Soft Drinks Limited and became Personnel Director of Compass in 1984. Prior to being appointed to his present positions, he was Managing Director of Compass Services from 1985 to 1988.

David Harris MA FIPM, aged 47, is currently Group Personnel Director. After periods with The Plessey Company plc and Avis Europe from 1973 to 1979, he joined Watney Mann and Truman Brewers, a division of Grand Metropolitan, in 1980. In 1985 he became Managing Director of Compass Services' international activities and Personnel Director of Compass and in 1988 he became Managing Director of the security activities of Compass Services.

Francis Mackay FCCA, aged 44, is Group Finance Director and Managing Director of Compass Healthcare. He joined Grand Metropolitan in 1986 as Finance Director of Compass after having been Finance Controller of London Cooperative Society and Finance Director of Sutcliffe Group (the third largest contract caterer in the UK) and Global Group Limited, a subsidiary of Great Universal Stores plc.

Nigel Olsen FCA, aged 54, is a non-executive Director. He retired recently as a Director of 31 plc where he had worked for 26 years and holds a number of non-executive posts.

Fritz Ternofsky, aged 45, who is an Austrian national, is a non-executive Director. He is Managing Director and Chief Operating Officer (Europe) of Commonwealth Hotels International Company where he has day to day responsibility for the operation of twelve Holiday Inns in the UK.

Management

Information on Compass' senior management is set out below:

	Title	Age	Length of service
(i) Compass Services			
David Unwin*	Quality Assurance Director	53	21 years
Clive Gilpin*	Divisional Managing Director	53	26 years
Roger Matthews, ACA*	Commercial Director	34	5 years
Clive Grundy*	Divisional Managing Director	37	3 years
Timothy Mason, ACIS*	Company Secretary	30	5 years
Gary Green, ACA	Financial Controller	31	2 years
Trevor Briggs	Regional Managing Director	41	14 years
Christopher Gray	Regional Managing Director	40	18 years
Peter Mills	Regional Managing Director	44	18 years
Derek Bampton	Regional Managing Director	43	22 years
Robert Lingard	Regional Managing Director	42	18 years
Terence Brennigan	Regional Managing Director	37	10 years
Anthony Barnard	National Accounts Director	35	8 years
Keith Chapman	Personnel Controller	31	2 years
Howard Potter	Purchasing Director	45	10 years
Roy Goodman	Regional Director	49	2 years
Eric Williams	Regional Director	44	8 years
Eugene Hayes, CPA, ACCA	Commercial Director	35	2 years
(ii) Compass Healthcare			
John Greenwood, FCA*	Commercial Director and Company Secretary	38	2 years
Roger Wyatt, FRICS*	Property Director	41	2 years
Brian Clarke, AHSM	Regional Manager	37	4 years
Nigel Harris	Regional Manager	40	2 years
John Taylor	Regional Manager	44	10 years
Diana Adams	Business Development Manager	29	6 years
Anne Barton	Personnel Manager	41	15 years
(iii) Rosser & Russell			
Fatima Choglay, FCMA, FCCA*	Finance Director and Company Secretary	37	4 years
Philip Gardner*	Operations Director	42	1 year
Roy Margrave*	Operations Director	43	22 years
Edward Molnar*	Operations Director	39	5 years
George Sharp*	Commercial Director	61	39 years
Christopher Hoar	Sales Director	35	—
(iv) Group			
Ronald Morley, FCCA	Group Financial Controller	36	10 years
Michael Donnelly, FCCA	Group Finance Manager	31	5 years
Jimmy Roberts, APMI	Assistant Company Secretary	37	—

*member of divisional board

Staff

During the financial year ended 25th September, 1988, the Group employed an average of 20,731 permanent staff of whom 4,942 were on a part time basis. Of the permanent staff, 19,695 were employed by Compass Services, 562 by Compass Healthcare and 474 by Rosser & Russell. The average numbers of permanent staff employed in each of the three years ended 25th September, 1988 inclusive were 20,590, 20,909 and 20,731, respectively, including staff employed in discontinued operations.

Compass recognises that the skills of its management and staff are essential for its future success, and accordingly continued emphasis is placed on the ongoing training and motivation of personnel throughout its operations.

The Group places considerable value on the participation of and communication with management and staff within the organisation. The Directors consider that Compass has a good industrial relations record, with no significant industrial dispute in recent years.

To date over 300 employees have participated in an executive share option scheme introduced following the management buy-out. In order to improve further the degree of employee participation in the Company, on 11th November, 1988 the Company also approved the establishment of an additional executive share option scheme and of a savings-related share option scheme, both of which will become effective following listing. Details of the share option schemes and of the savings-related share option scheme are set out in "Further Information" in Part IV.

In addition, under the Offer, 1,000,000 Ordinary Shares have been reserved for preferential applications from Group employees.

Pensions

The Compass Group Pension Plan was established in April 1988. Prior to this, employees were eligible for the schemes operated by Grand Metropolitan and Rosser & Russell. Members of those schemes who are Group employees can now transfer across to the Compass Plan and take past service credit across from their previous schemes.

The Compass Group Pension Plan offers employees a final salary plan, which provides a retirement pension based on a member's earnings near retirement and years of membership, or a money purchase plan, which provides a lump sum at retirement to buy a pension.

In April 1988 the Compass Group Pension Plan had over 4,500 members. It is estimated that over 90 per cent. of employees who were members of the Grand Metropolitan and Rosser & Russell schemes have transferred to the Compass Group Pension Plan. Most employees have entered the final salary plan.

In April 1988, prior to the commencement of the Compass Group Pension Plan, an actuarial valuation of the proposed final salary plan was carried out. The results of this valuation, which has been updated as at 28th October, 1988, show that the plan is adequately funded.

In 1987 and 1988 the Group's pension contributions were reduced by £2.5 million in aggregate as a result of past Grand Metropolitan pension scheme over funding. On the basis of the current rate of contributions and assuming current employee membership profiles and predicted salary increases, the Directors estimate that the net pension costs to the Company, for at least the next two financial years, will be of broadly the same order as those of the financial year ended 25th September, 1988 after the payment from Grand Metropolitan (see notes 2 and 3 of "Notes to the consolidated profit and loss accounts" of "Accountants' report" in Part II), increasing in line with increases in employees' pensionable salaries.

Pro forma earnings

The principal changes to the capital structure of the Company (which have been effected conditional upon admission of the Ordinary Shares, issued and to be issued, to the Official List) are set out in paragraph (f) of "Incorporation and share capital" in the section entitled "Further information" in Part IV and are reflected in the pro forma profit and loss account below.

The following table sets out the pro forma historic earnings per Ordinary Share for the financial year ended 25th September, 1988, assuming that:

(i) the capital reorganisation and the admission of the Ordinary Shares to the Official List had been effected on 27th September, 1987;

(ii) the Ordinary Shares of the Company in issue immediately following the Offer had been in issue throughout the whole of the financial year ended 25th September, 1988;

(iii) the holders of the Company's redeemable preference share capital who have elected to apply the relevant redemption moneys in subscribing for new Ordinary Shares, at the Offer price, at the same time as the Offer had done so on 27th September, 1987;

(iv) the estimated net proceeds of the Offer of £55.2 million had been available at 27th September, 1987 and were applied in reducing the Company's indebtedness and redeeming the balance of the Company's redeemable preference share capital; and

(v) a rate of corporation tax of 35 per cent. had been applicable in the financial year ended 25th September, 1988 (the effective taxation rate for the Group for that period having been 33.1 per cent.).

	Pro forma 52 week period ended 25th September, 1988 £m
Profit on continuing ordinary activities before taxation	13.3
Adjustment to buy-out interest and related finance charges	6.2
Profit on continuing ordinary activities before taxation	19.5
Taxation	(6.8)
Profit on continuing ordinary activities after taxation	12.7
Minority interests	(0.2)
Profit attributable to Ordinary Shares	12.5
Ordinary Shares in issue	64,446,866
Earnings per share	19.4p

Financial record

The following table, extracted from the Accountants' report, summarises the results of the Group for the five financial periods ended 25th September, 1988:

	1984 £m	1985 £m	1986 £m	1987 £m	1988 £m
	Year ended September				
Turnover	197.6	208.6	222.6	254.4	276.9
Operating profit	0.0	5.9	8.7	16.8	24.7
Profit/(loss) on continuing ordinary activities before interest on management buy-out borrowings and taxation	(0.5)	5.2	8.3	17.1	25.4)
Interest on management buy-out borrowings	—	—	—	(1.9)*	(12.1)
Profit/(loss) on continuing ordinary activities before taxation	(0.5)	5.2	8.3	15.2	13.3

*Note: Interest from 31st July, 1987 to 27th September, 1987.

The four financial periods ended 25th September, 1988 saw a turnaround in financial performance from break-even to an operating profit of £24.7 million. The principal reasons for this transition are outlined below:

* the appointment of a number of key senior executives who identified both the potential opportunities and the more profitable areas in each business;
* improved operational disciplines and efficiencies which generated tighter financial control and higher margins;
* the development of the manned security and kitchen planning services into significant profitable businesses in their own right;
* improved procedures and controls within Rosser & Russell, including greater selectivity in contract tendering; and
* the development and expansion of Compass Healthcare's business including the acquisition and development of two further hospitals.

Since the buy-out, Compass has taken further actions to improve profitability:

* *the disposal of Compass' vending business and the withdrawal from a number of overseas activities from* which the Directors did not expect satisfactory contributions;
* the introduction of innovative pricing and payment policies for Compass Healthcare, in addition to a number of advanced medical techniques and procedures;
* the introduction of quality assurance projects; and
* the development of in-house cash management procedures which ensure optimal use of the Group's cash resources.

The combination of growth in profits and reduction in working capital requirements in the 60 week period from the buy-out until 25th September, 1988 has generated an operating cash flow of £22.9 million, of which £8.5 million has been invested in capital expenditure and £8.6 million in acquisitions.

Dividends

If the Company's shares had been listed on The Stock Exchange during the whole of the financial year ended 25th September, 1988 and on the basis of the capital structure of the Company following the Offer, the Directors consider that they would have recommended dividends for the year totalling 7.2p net per Ordinary Share (equivalent to 9.6p gross) made up as to 2.4p per Ordinary Share as an interim dividend and 4.8p per Ordinary Share as a final dividend. At the Offer price this notional historic dividend would represent a gross dividend yield of 3.9 per cent. and would have been covered 2.7 times by pro forma historic earnings per share of 19.4p (based on 64,446,866 Ordinary Shares, being the number of Ordinary Shares in issue immediately following the Offer).

The Directors expect to pay interim dividends in July and to recommend final dividends for payment in March.

Calculations of gross dividends assume a rate of advance corporation tax of one-third of the amount of the net dividend.

Reasons for the Offer

The Directors consider that a listing on The Stock Exchange is appropriate at this stage of the Group's development. The resulting increase in the Company's equity and reduction in borrowings will provide an excellent base for the further expansion of the Group. Existing development plans are concentrated on current areas of operation where the Group has a proven track record; as suitable acquisition opportunities emerge, listing will provide the Group with greater financing flexibility. Additionally, the Directors believe that obtaining a listing will enable a greater degree of employee participation in the Group.

Prospects

The Directors believe that there is considerable potential for profitable expansion in all the sectors in which the Group's divisions operate.

In Compass Services, the Group's major operating division, the Directors believe that growth will come from an increase in the contracted-out sector of the catering market and increased margins resulting from improved purchasing and operational efficiency.

They believe that in Compass Healthcare, growth will come from the expanding private healthcare market, with scope for significant improvement in performance from higher occupancy levels in existing hospitals.

The Directors consider that Rosser & Russell is well placed for the future, with the management to control larger projects effectively and with growing contributions from its service and maintenance contract business.

In addition to taking advantage of the potential for organic growth, the Group's improved capital base following the Offer and its strong cash flow will provide a sound financial platform from which to expand further by investment and by acquisition.

Against this background, the Directors expect a strong performance during the current financial year, consider that there are excellent prospects for the Group and look forward to the future with confidence.

PART II

Accountants' report

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Lazard Brothers & Co., Limited,
21 Moorfields,
London EC2P 2HT

6th December, 1988

Gentlemen,

Compass Group PLC ("the Company") was incorporated on 16th January, 1987 as Chiefrule Limited and changed its name to Compass Group Limited on 3rd August, 1987. On 31st July, 1987 the Company purchased the companies and businesses comprising the contract services division of Grand Metropolitan PLC (the "Contract Services Division") in the course of a management buy-out. The Company was re-registered as a public limited company under the Companies Act 1985 on 15th November, 1988.

The financial information set out in Sections A to D below shows the consolidated results and position of the Company and the Contract Services Division (together "the Group") as if the Group had been in existence throughout the five financial periods ended 25th September, 1988 ("the relevant accounting period"). The financial information is based on the audited financial statements of the companies included in the Group and is stated after making such adjustments as we consider necessary.

We have acted as auditors of the Company since incorporation. The auditors of the principal companies and businesses included in the Group during the relevant period are set out in Section E. We have examined the audited financial statements of the members of the Group for the relevant accounting period. Our examination has been carried out in accordance with the *Auditing Guideline: Prospectuses and the Reporting Accountant.*

In our opinion, the financial information set out in Sections A to D below gives a true and fair view of the profits and losses, and source and application of funds of the Group for each of the five financial periods ended 25th September, 1988, and of the state of affairs of the Group for each of the periods then ended.

A Accounting policies

(a) Financial information

The financial results for the 52 weeks ended 25th September, 1988 reflect the first full year of trading following the purchase of the Contract Services Division on 31st July, 1987.

To present the financial results of the businesses acquired as a result of the management buy-out on an annual basis, combined financial information has been compiled for each of the four financial periods ended 27th September, 1987, on the basis of accounting policies presently applied and on the assumption that the Group as constituted as at 27th September, 1987 had been in existence throughout the four years then ended.

During the relevant accounting period the accounts have been drawn up to the last Sunday in September.

(b) Accounting convention

The financial information is prepared under the historical cost basis, modified by the revaluation of freehold land and buildings.

(c) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries drawn up to 25th September, 1988.

Subsidiaries acquired are accounted for under the acquisition method of accounting.

(d) Goodwill

Goodwill arising on consolidation is written off direct to reserves in the year in which it arises.

(e) Foreign currencies

The assets and liabilities of the foreign subsidiary companies are translated into sterling at the rates of exchange ruling at the period end. Gains or losses resulting from the realignment of opening foreign currency balances to the period end rates are treated as movements on reserves.

The results of the foreign subsidiary companies are translated into sterling at the average rates of exchange for the accounting period. Gains or losses resulting from the translation of these results from the average to the period end rates are treated as movements on reserves. All other exchange differences are dealt with through the profit and loss account.

(f) Stocks

Stocks are valued at the lower of cost and net realisable value. Work in progress is valued at cost of direct materials and labour plus attributable overheads.

(g) Long term contracts

Turnover on long term contracts is ascertained on the basis of the percentage of completion of each contract. Where it is considered that the outcome of a long term contract can be assessed with reasonable certainty before its conclusion, attributable profits, being the excess of turnover over related costs, less provision for any foreseeable losses, are recognised in the profit and loss account. Amounts recoverable on contracts, being the excess of turnover over payments on account, are separately disclosed within debtors. Payments on account in excess of turnover and provisions for foreseeable losses, where these exceed costs incurred, are separately disclosed within creditors. The above policy reflects the requirements of Statement of Standard Accounting Practice 9 (Revised).

(h) Turnover
Turnover represents the invoiced value, excluding value added tax, of goods and services supplied to third parties.

(i) Tangible fixed assets and depreciation
Fixed assets are carried at cost or professional valuation less depreciation which is provided on their book value at rates calculated to write off each asset to its residual value over its estimated remaining useful life on a straight line basis, within the following ranges:

- Freehold property — 2 per cent. per annum
- Leasehold property — over the life of the lease
- Plant and machinery — 2 per cent. to 25 per cent. per annum
- Fixtures and fittings — 10 per cent. to 25 per cent. per annum
- Freehold land is not depreciated.

(j) Investments in related companies
A related company is one in which the Group has a long term investment which is sufficiently substantial, from 20 per cent. to 50 per cent., to enable the Group to exercise a significant influence over the company in which the investment is made.

The Group's share of the profits less losses of related companies is included in the consolidated profit and loss account and its interest in their net tangible assets is included in investments in the consolidated balance sheet.

(k) Pension costs
Payments are made either to pension trusts which are financially separate from the Group or to insurance companies. These payments, which are made in accordance with periodic calculations by professionally qualified actuaries, are charged against the profits so that the expected costs of providing pensions are recognised during the period in which benefit is derived from the employees' services.

(l) Deferred taxation
Deferred taxation is provided at the anticipated tax rates on differences arising from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements to the extent that it is probable that a liability or asset will crystallize in the future.

(m) Leases
Rental costs under operating leases are charged to the profit and loss account in equal annual amounts over the periods of the leases.

B Consolidated profit and loss accounts

The consolidated profit and loss accounts of the Group for each of the five financial periods from 1st October, 1983 to 25th September, 1988 are set out below:

	Notes	1984 £m	1985 £m	1986 £m	1987 £m	1988 £m
Turnover	1	197.6	208.6	222.6	254.4	276.9
Operating costs	2	(196.6)	(204.2)	(215.3)	(237.9)	(252.4)
Income from shares in related companies	4	(1.0)	1.5	1.4	0.3	0.2
Operating profit	5	—	5.9	8.7	16.8	24.7
Interest receivable and similar income		1.8	2.4	2.3	2.3	0.7
Interest payable and similar charges	6	(2.3)	(3.1)	(2.7)	(3.9)	(12.1)
Profit/(loss) on continuing ordinary activities before taxation		(0.5)	5.2	8.3	15.2	13.3
Taxation on profit/(loss) on continuing ordinary activities	7	1.7	(2.1)	1.1	(4.4)	(4.4)
Profit on continuing ordinary activities after taxation		1.2	3.1	9.4	10.8	8.9
Minority interests		(0.1)	(0.2)	(0.1)	(0.1)	(0.2)
Profit on continuing ordinary activities attributable to the members		1.1	2.9	9.3	10.7	8.7
Discontinued operations after taxation	8	(0.5)	(1.3)	(0.8)	(0.1)	—
Extraordinary items – continuing operations	9	(8.2)	3.2	2.3	6.1	—
Extraordinary items – discontinued operations	10	(3.5)	(1.8)	(1.0)	—	1.0
Profit/(loss) for the financial period		(11.1)	3.0	9.8	16.7	9.7
Dividends	11	(1.5)	(2.0)	(3.0)	(0.6)	(3.8)
Retained profit/(loss) for the period		(12.6)	1.0	6.8	16.1	5.9
Earnings per share on continuing activities	12					20.3p
Pro forma earnings per share on continuing activities	13					19.4p

Notes to the consolidated profit and loss accounts

1. Turnover

	1984 £m	1985 £m	1986 £m	1987 £m	1988 £m
By activity					
Catering, security and facilities	179.4	184.9	198.9	216.3	227.4
Building services	15.4	18.4	15.9	27.1	34.7
Hospital management	2.8	5.3	7.8	11.0	14.8
	197.6	208.6	222.6	254.4	276.9
By geographical area					
United Kingdom	177.8	197.4	215.1	248.4	272.5
Rest of the world	19.8	11.2	7.5	6.0	4.4
	197.6	208.6	222.6	254.4	276.9

2. Operating costs

	1984 £m	1985 £m	1986 £m	1987 £m	1988 £m
Movement in stock of finished goods and work in progress	0.2	(0.2)	(2.4)	(1.3)	0.8
Raw materials and consumables	86.9	103.4	109.8	121.0	127.8
Other external charges	16.4	10.3	13.3	12.0	12.3
Staff costs	91.2	88.6	91.9	103.5	108.5
Depreciation of tangible fixed assets	1.9	2.1	2.7	2.7	3.0
	196.6	204.2	215.3	237.9	252.4
Other external charges (credits) include:					
Property lease rentals	0.2	0.5	0.1	0.3	0.4
Auditors' remuneration	0.2	0.3	0.3	0.2	0.2
Rebates from the Grand Metropolitan pension scheme	—	—	—	(1.7)	(0.8)

3. Directors and employees

The aggregate remuneration of all employees, including directors, comprised:

	1984 £m	1985 £m	1986 £m	1987 £m	1988 £m
Wages and salaries	79.7	79.4	78.1	94.2	99.0
Social security costs	7.5	6.0	10.1	6.1	6.7
Other pension costs	4.0	3.2	3.7	3.2	2.8
	91.2	88.6	91.9	103.5	108.5

The total emoluments of directors of the parent company, including remuneration received by these executives prior to the formation of the Company, inclusive of pension contributions were:

1984 £m	1985 £m	1986 £m	1987 £m	1988 £m
0.2	0.3	0.3	0.3	0.5

The average number of employees, including part time employees, was:

1984	1985	1986	1987	1988
19,361	19,803	20,820	20,733	20,731

4. Related companies

The consolidated profit and loss account includes the following amounts in respect of related companies:

	1984 £m	1985 £m	1986 £m	1987 £m	1988 £m
Share of profits/(losses) before taxation	(1.0)	1.5	1.4	0.3	0.2
Taxation	—	(0.3)	(0.2)	—	—
Share of profits/(losses) after taxation	(1.0)	1.2	1.2	0.3	0.2
Dividends received by the Group	(0.8)	(0.1)	(0.9)	(0.1)	(0.2)
	(1.8)	1.1	0.3	0.2	—

5. Operating profit

	1984 £m	1985 £m	1986 £m	1987 £m	1988 £m
By activity					
Catering, security and facilities	0.7	7.7	9.6	13.8	18.5
Building services	(1.2)	(2.4)	(1.6)	1.5	2.5
Hospital management	0.5	0.6	0.7	1.5	3.7
	—	5.9	8.7	16.8	24.7
By geographical area					
United Kingdom	1.9	3.2	5.2	16.2	24.6
Rest of the world	(1.9)	2.7	3.5	0.6	0.1
	—	5.9	8.7	16.8	24.7

6. Interest payable and similar charges

	1984 £m	1985 £m	1986 £m	1987 £m	1988 £m
Bank loans and overdrafts:					
Management buy-out borrowings	—	—	—	(1.9)	(12.1)
Other borrowings	(2.3)	(3.1)	(2.7)	(2.0)	—
	(2.3)	(3.1)	(2.7)	(3.9)	(12.1)

7. Taxation on profit/(loss) on continuing ordinary activities

	1984 £m	1985 £m	1986 £m	1987 £m	1988 £m
United Kingdom corporation tax	1.8	3.6	3.2	(4.9)	(3.8)
Deferred tax	0.1	(3.1)	(1.0)	0.4	(0.4)
Overseas tax	(0.1)	(1.6)	(0.2)	—	—
Prior year adjustment	(0.1)	0.7	(0.6)	0.1	(0.2)
Other	—	(1.7)	(0.3)	—	—
	1.7	(2.1)	1.1	(4.4)	(4.4)

8. Discontinued operations
Adjustment has been made to remove the results of certain operations of the Group which were discontinued during the five year period, in order to present the financial information on a consistent basis.

9. Extraordinary items

	1984 £m	1985 £m	1986 £m	1987 £m	1988 £m
Financial restructuring on management buy-out – debt forgiven	—	—	—	16.0	—
Restructuring and reorganisation costs	(13.9)	1.0	—	(11.6)	—
Profit/(loss) on disposal of investments	—	—	(1.4)	—	1.0
Tax on extraordinary items	2.2	0.4	—	1.7	—
Tax losses	—	—	2.7	—	—
Extraordinary (charge)/credit	(11.7)	1.4	1.3	6.1	1.0
Extraordinary items – continuing operations	(8.2)	3.2	2.3	6.1	—
Extraordinary items – discontinued operations	(3.5)	(1.8)	(1.0)	—	1.0
	(11.7)	1.4	1.3	6.1	1.0

10. Extraordinary items—discontinued operations
Adjustment has been made to remove the extraordinary items arising from certain of the Group's operations which were discontinued during the five year period, in order to present the financial information on a consistent basis.

11. Dividends

	1984 £m	1985 £m	1986 £m	1987 £m	1988 £m
Dividend paid to Grand Metropolitan	1.5	2.0	3.0	—	—
Aggregate dividends proposed and payable	—	—	—	0.6	3.8
	1.5	2.0	3.0	0.6	3.8

Dividends for 1987 and 1988 comprise:

	1987 Pence per share	1987 £m	1988 Pence per share	1988 £m
Dividend on 30,000,000 cumulative redeemable preference shares				
Interim	—	—	3.500	1.1
Final	1.169	0.4	3.500	1.1
	1.169	0.4	7.000	2.2
Dividend on 3,500,000 cumulative convertible participating preferred ordinary shares				
Interim	—	—	15.000	0.5
Final	6.898	0.2	33.945	1.1
	6.898	0.2	48.945	1.6
Total		0.6		3.8

12. Earnings per ordinary share
The calculation of earnings of 20.3 pence per Ordinary Share of 5p for the financial year ended 25th September, 1988 has been based on the profit on continuing ordinary activities after taxation and after deducting the dividends attributable to those holders of Cumulative Redeemable Preference Shares ("CRPs") who do not intend to apply the redemption proceeds from their CRPs in subscribing for Ordinary Shares, as follows:

	52 weeks ended 25th September, 1988 £m
Profit on continuing ordinary activities before taxation	13.3
Taxation	(4.4)
Profit on continuing ordinary activities after taxation	8.9
Minority interests	(0.2)
	8.7
Dividend adjustment	(0.4)
Earnings attributable to ordinary shares	8.3
Number of ordinary shares	40,853,148
Earnings per ordinary share	20.3p

The calculation is also based on 40,853,148 Ordinary Shares of the Company immediately prior to the issue of Ordinary Shares of 5p pursuant to the Offer.

13. Pro forma earnings per ordinary share
The following table sets out the pro forma historic earnings per Ordinary Share of 5p for the financial year ended 25th September, 1988, assuming that:

(i) the capital reorganisation and the admission of the Ordinary Shares of 5p to the Official List had been effected on 27th September, 1987;
(ii) the 64,446,866 Ordinary Shares of 5p of the Company in issue immediately following the Offer had been in issue throughout the whole of the financial year ended 25th September, 1988;
(iii) the holders of the Company's redeemable preference share capital who have elected to apply the relevant redemption moneys in subscribing for new Ordinary Shares of 5p, at the Offer price, at the same time as the Offer had done so on 27th September, 1987;
(iv) the estimated net proceeds of the Offer of £55.2 million had been available at 27th September, 1987 and were applied in reducing the Company's indebtedness and redeeming the balance of the Company's redeemable preference share capital; and
(v) a rate of corporation tax of 35 per cent. had been applicable in the financial year ended 25th September, 1988 (the effective taxation rate for the Group for that period having been 33.1 per cent.).

	Pro forma 52 weeks ended 25th September, 1988 £m
Profit on continuing ordinary activities before taxation	13.3
Adjustment to buy-out interest and related finance charges	6.2
Pro forma profit on continuing ordinary activities before taxation	19.5
Taxation	(6.8)
Pro forma profit on continuing ordinary activities after taxation	12.7
Minority interests	(0.2)
Pro forma earnings attributable to ordinary shares	12.5
Number of ordinary shares	64,446,866
Pro forma earnings per ordinary share	19.4p

The capital structure of the Group was significantly different in the period prior to 1st August, 1987 and therefore pro forma earnings per share have not been calculated for the four financial periods ended 27th September, 1987.

C Consolidated balance sheets

The consolidated balance sheets of the Group for each of the five financial periods ended 25th September, 1988 are set out below:

	Notes	1984 £m	1985 £m	1986 £m	1987 £m	1988 £m
Fixed assets						
Tangible assets	1	25.6	28.6	28.6	40.8	47.0
Investments	2	(1.0)	—	0.5	0.5	0.1
		24.6	28.6	29.1	41.3	47.1
Current assets						
Stocks	3	3.2	2.7	2.4	3.6	2.5
Debtors	4	44.1	46.5	38.4	34.7	40.2
Cash at bank and in hand		24.8	20.9	23.2	7.9	7.9
		72.1	70.1	64.0	46.2	50.6
Creditors: due within one year	5	(88.7)	(87.1)	(78.1)	(55.8)	(66.9)
Net current assets		(16.6)	(17.0)	(14.1)	(9.6)	(16.3)
Total assets less current liabilities		8.0	11.6	15.0	31.7	30.8
Creditors: due after one year	6	(2.1)	(3.5)	—	(103.2)	(100.3)
Provisions for liabilities and charges	7	(2.5)	(4.7)	(3.8)	(6.4)	(5.6)
Minority interests		(0.2)	(0.3)	(0.2)	(1.0)	(0.1)
		3.2	3.3	11.0	(78.9)	(75.2)
Capital and reserves						
Called up share capital	8	—	—	—	0.3	0.3
Share premium account	9	—	—	—	57.3	57.3
Other reserves: goodwill	9	—	—	(4.6)	(136.7)	(145.0)
other	9	4.4	3.4	8.7	—	6.1
Profit and loss account	9	(1.2)	(0.1)	6.9	0.2	6.1
		3.2	3.3	11.0	(78.9)	(75.2)

Notes to the consolidated balance sheets

1. Tangible assets

	Freehold land and buildings £m	Long leasehold property £m	Plant and machinery £m	Fixtures and fittings £m	Total £m
Cost or valuation					
At 27th September, 1987	30.6	0.8	9.6	8.5	49.5
Additions	2.5	—	2.8	1.3	6.6
Subsidiary acquired	—	—	0.9	—	0.9
Disposals	(0.8)	—	(5.0)	(0.9)	(6.7)
Reclassification	0.7	(0.7)	—	—	—
Revaluation	5.5	—	—	—	5.5
At 25th September, 1988	38.5	0.1	8.3	8.9	55.8
Depreciation					
At 27th September, 1987	0.2	—	4.9	3.6	8.7
Charge for the 52 week period	0.6	—	1.3	1.1	3.0
Subsidiary acquired	—	—	0.6	—	0.6
Revaluation	(0.6)	—	—	—	(0.6)
Disposals	(0.2)	—	(2.4)	(0.3)	(2.9)
At 25th September, 1988	—	—	4.4	4.4	8.8
Net book value					
At 25th September, 1988	38.5	0.1	3.9	4.5	47.0
At 27th September, 1987	30.4	0.8	4.7	4.9	40.8

Freehold land and buildings were valued on 23rd September, 1988 at open market value on the basis of existing use at £38.5 million by Conrad Ritblat & Co., consultant surveyors and valuers. The surplus of £6.1 million over net book value shown above has been transferred to the revaluation reserve.

Historical cost figures for freehold land and buildings, being the original cost to the Group and the related depreciation, are:

	1987 £m	1988 £m
Historical cost	30.6	33.0
Depreciation	(0.2)	(0.6)
Net book value	30.4	32.4

2. Investments

	Related companies £m
Balance as at 27th September, 1987	0.5
Share of retained profits for the period	—
Disposals	(0.4)
Balance as at 25th September, 1988	0.1

3. Stocks

	1987 £m	1988 £m
Raw materials and consumables	1.7	1.4
Work in progress	1.4	0.6
Finished goods and goods for resale	0.5	0.5
	3.6	2.5

The replacement cost of the above stock was not materially different from the values shown.

4. Debtors

	1987 £m	1988 £m
Trade debtors due within one year	28.2	31.9
Amounts recoverable on contracts	3.7	6.7
Amounts owed by related companies	0.1	—
Other debtors	0.9	0.6
Prepayments and accrued income	1.8	1.0
	34.7	40.2

5. Creditors: due within one year

	1987 £m	1988 £m
Loans repayable within one year	1.2	—
Bank overdrafts	—	1.5
Trade creditors	26.7	28.5
Corporation tax payable	0.8	7.7
Other tax and social security costs	6.6	6.6
Proposed dividend	0.6	2.2
Accruals and deferred income	9.5	12.0
Payments on account	1.2	0.5
Other creditors	9.2	7.9
	55.8	66.9

Group banking arrangements, which allow certain overdrafts to be offset against surpluses, existed at 25th September, 1988. The Group overdraft is secured by a first fixed and floating charge over the assets of the Company and certain subsidiaries.

6. Creditors: due after one year

	1987 £m	1988 £m
Corporation tax payable	3.2	—
Medium term bank loan	70.0	70.0
Mezzanine bank loan	30.0	30.0
Other	—	0.3
	103.2	100.3
Analysis of bank loan repayments		
Between 2 and 5 years		62.0
After 5 years		38.0
		100.0

The medium term loan is secured by a fixed and floating charge over the assets of the Company and certain subsidiaries. The mezzanine loan is secured by fixed and floating charges over the assets of the Company and certain subsidiaries, ranking in priority after the medium term loan security. As a result of the Banking Act 1987, the mezzanine loan is treated as a loan made by a bank.

The medium term loan is repayable in 5 equal instalments commencing on 31st July, 1990. The mezzanine loan is repayable in 10 equal six-monthly instalments commencing on 31st July, 1992.

The Company has the option to repay the medium term loan in 20 equal quarterly instalments commencing 31st October, 1989, or to prepay the loan on any quarterly interest rollover date.

The Company is entitled to prepay £15 million of the mezzanine loan on the first quarterly interest payment date following the listing of the ordinary shares of the Company on The Stock Exchange, or on any interest payment date after 31st July, 1991, and is also entitled to prepay £30 million on any interest payment date after 31st July, 1992.

The medium term and mezzanine loans are subject to floating interest rates based on LIBOR. The cost of variable rate borrowing has been capped for £50 million until 31st July, 1989 at a LIBOR of 10.875 per cent. The liability to pay a variable rate interest on £50 million has been swapped for a liability to pay fixed rate based on a LIBOR of 9.4 per cent. until 31st January, 1990.

7. Provisions for liabilities and charges

	Deferred tax £m	Other provisions £m	Group total £m
As at 27th September, 1987	2.0	4.4	6.4
Charged to profit and loss account	0.2	0.2	0.4
Utilised and other movements	(0.9)	(0.3)	(1.2)
As at 25th September, 1988	1.3	4.3	5.6

Deferred tax analysis:

	Provided £m	Unprovided £m
Capital allowances in excess of depreciation	3.3	0.3
Other timing differences	(1.0)	—
	2.3	0.3
Unutilised trading losses	(0.3)	(0.1)
Less: Unrelieved advance corporation tax	(0.7)	—
	1.3	0.2

No provision has been made for potential tax liabilities which might arise in the event of the distribution of unappropriated profits or reserves of overseas subsidiary companies.

A potential capital gains tax liability of approximately £5.7 million exists in relation to the surplus arising on the revaluation of certain freehold properties. It is not the Group's intention to sell these revalued properties and no deferred tax has therefore been provided in relation to the revaluation surplus.

8. Share capital

	Authorised No.	Authorised £000	Allotted called up and fully paid No.	Allotted called up and fully paid £000	Issue price
Ordinary shares of 1p each	820,000	8	300,000	3	£1
Cumulative convertible participating preferred ordinary shares (CCPPOs) of 1p each	3,500,000	35	3,500,000	35	£8.58
Cumulative redeemable preference shares (CRPs) of 1p each	30,000,000	300	30,000,000	300	£1
		343		338	

9. Reserves

	1984 £m	1985 £m	1986 £m	1987 £m	1988 £m
Share premium account					
Brought forward	—	—	—	—	57.3
Premium on issue of shares	—	—	—	60.0	—
Less expenses	—	—	—	(2.7)	—
Carried forward	—	—	—	57.3	57.3
Revaluation reserve					
Brought forward	—	—	—	—	—
Surplus on revaluation	—	—	—	6.8	6.1
Transfers on restructuring	—	—	—	(6.8)	—
Carried forward	—	—	—	—	6.1
Other reserves					
Brought forward	4.7	4.4	3.5	8.7	—
Exchange adjustments	—	—	—	(0.5)	—
Transfers on restructuring	(0.3)	(0.9)	5.2	(8.2)	—
Carried forward	4.4	3.5	8.7	—	—
Goodwill					
Brought forward	—	—	—	(4.6)	(136.7)
Goodwill on acquisitions	—	—	(4.6)	(5.9)	(8.5)
Transfers on restructuring	—	—	—	38.1	—
Capital reserve arising during the period	—	—	—	—	0.2
Goodwill on restructuring	—	—	—	(164.3)	—
Carried forward	—	—	(4.6)	(136.7)	(145.0)

The consolidated goodwill represents the excess of the consideration for the operations acquired over the fair value of the net assets acquired. The goodwill has been written off to shareholders equity and is maintained as a separate negative reserve.

	1984 £m	1985 £m	1986 £m	1987 £m	1988 £m
Profit and loss account					
Brought forward	11.5	(1.2)	(0.1)	6.9	0.2
Exchange adjustments	(0.1)	0.1	0.2	0.3	—
Retained profit/(loss)	(12.6)	1.0	6.8	16.1	5.9
Transfers on restructuring	—	—	—	(23.1)	—
Carried forward	(1.2)	(0.1)	6.9	0.2	6.1

10. Contingent liabilities
The Company has guaranteed indemnities and overdrafts of subsidiary and related companies of £2.2 million as at 25th September, 1988. Grand Metropolitan PLC guarantees some £3.8 million indemnities and overdrafts of related companies and third parties until September 1990 or when the ordinary shares of the Company are listed on The Stock Exchange if earlier.

11. Capital commitments

As at 25th September, 1988	£m
Contracted for but not provided for in the accounts	1.9
Authorised but not yet contracted for	5.7

12. Operating lease commitments
The Group has financial commitments of £0.3 million during the next 53 week period in respect of operating leases for land and buildings which expire after 5 years, and of £0.1 million in respect of other leases which expire within 2 to 5 years.

13. Acquisitions
On 7th August, 1988 the Company acquired the whole of the issued share capital of Security Arrangements Limited for £2.6 million, and additionally settled loans and bank overdrafts amounting to £6 million.

At 25th September, 1988 the net liabilities of Security Arrangements Limited and its subsidiaries were £5.8 million. In the period from 1st January, 1988 to 25th September, 1988 the turnover of Security Arrangements Limited and its subsidiaries was £8.6 million and operating profit was £0.1 million. Of this operating profit £0.1 million is included in the results of the Group for the 52 weeks to 25th September, 1988 in accordance with the accounting policy set out in Section A paragraph (c).

On 4th October, 1988 the Group acquired a number of catering companies known as the "Red Ball Group of Companies" for £1.1 million.

D Consolidated statements of source and application of funds

The consolidated statements of source and application of funds for each of the five financial periods ended 25th September, 1988 are set out below:

	1984 £m	1985 £m	1986 £m	1987 £m	1988 £m
Source of funds:					
Profit/(loss) on continuing ordinary activities before taxation	(0.5)	5.2	8.3	15.2	13.3
Extraordinary items before taxation	(10.6)	(2.2)	(1.4)	4.4	1.0
Loss on discontinued operations before taxation	(1.2)	(1.1)	(0.9)	—	—
	(12.3)	1.9	6.0	19.6	14.3
Adjustment for items not involving movement of funds:					
Movement in provisions	1.7	0.8	(1.8)	3.5	(1.2)
Depreciation	2.1	2.1	3.3	3.3	3.0
Financial restructuring	—	—	—	(16.0)	—
Profit on disposal of subsidiary	—	—	—	—	(1.0)
Movements in minority interests and retained earnings of related companies	2.8	(0.8)	(0.7)	—	—
Total generated from operations	(5.7)	4.0	6.8	10.4	15.1
Shares issued	—	—	—	60.3	—
Loans and long term creditors	—	(0.5)	—	100.0	0.3
Fixed asset disposals	0.9	1.5	3.6	1.0	1.6
Tax repayment	—	1.5	2.3	3.4	—
Disposal of associated company	—	—	—	—	0.4
Disposal of subsidiary	—	—	—	—	3.4
	(4.8)	6.5	12.7	175.1	20.8
Application of funds:					
Minority interest dividend	—	—	—	—	0.2
Purchase of minority interest	—	—	—	—	0.7
Cost of shares issued	—	—	—	2.7	—
Fixed assets acquired	7.7	9.4	9.4	9.0	6.6
Goodwill acquired	—	—	0.8	164.3	—
Cost of acquisition of subsidiaries	—	—	—	5.9	8.6
Tax paid	1.6	—	—	—	1.0
Dividends paid	1.0	1.5	3.0	—	2.2
	10.3	10.9	13.2	181.9	19.3
Increase/(decrease) in working capital:					
Stocks	3.7	(0.5)	(0.3)	1.2	(0.5)
Debtors	7.4	6.0	(7.8)	(0.6)	4.2
Creditors	(29.7)	(6.7)	(5.1)	0.9	(1.9)
Currency translation	0.1	0.1	(0.2)	0.2	—
	(8.2)	9.8	1.8	183.6	21.1
Net cash surplus/(deficit)	3.4	(3.3)	10.9	(8.5)	(0.3)
Comprising:					
(Decrease)/increase in cash balances	6.5	(3.9)	2.3	(15.3)	—
Decrease/(increase) in short term loans and overdrafts	(3.1)	0.6	8.6	6.8	(0.3)
	3.4	(3.3)	10.9	(8.5)	(0.3)

Analysis of net acquisitions and disposals	1987 £m	1988 £m
Fixed assets – tangible assets	0.1	(1.9)
Stocks	0.1	(0.6)
Debtors	2.1	1.3
Cash	0.1	—
Creditors due within one year	(2.2)	(0.4)
Provisions	(0.2)	(1.1)
Deferred taxation	—	0.4
	—	(2.3)
Goodwill	5.9	8.5
Excess of cash received over net assets disposed of	—	(1.0)
	5.9	5.2
Cash paid on acquisition	5.9	8.6
Cash received on disposal	—	(3.4)
	5.9	5.2

E Principal subsidiary company auditors

	1984	1985	1986	1987	1988
Compass Contract Services (U.K.) Ltd. (formerly Centralboss Ltd.)	—	—	—	TR	TR
Compass Contract Services (UK) Ltd. (now Grand Metropolitan Nominee Company (No.2) Limited)	—	SH	SH	—	—
Compass Services (U.K.) Ltd. (now dormant)	SH	—	—	—	—
Rosser & Russell Building Services Ltd.	KMG	KMG	KMG	TR	TR
Compass Healthcare Ltd.	KMG	KMG	KMG	TR	TR

KEY:
KMG (KMG Thomson McLintock); SH (Stoy Hayward); and TR (Touche Ross & Co.).

Yours faithfully,
Touche Ross & Co.,
Chartered Accountants

PART III

Pro forma consolidated balance sheet

A pro forma consolidated balance sheet, as at 25th September, 1988, is set out below. The balance sheet is adjusted to show the net effect of the capital reorganisation and of the estimated proceeds of the Offer.

	Actual as at 25th September, 1988 £m	Adjustments £m	Pro forma as at 25th September, 1988 £m
Fixed assets			
Tangible assets	47.0	—	47.0
Investments	0.1	—	0.1
	47.1	—	47.1
Current assets			
Stocks	2.5	—	2.5
Debtors	40.2	—	40.2
Cash at bank and in hand	7.9	—	7.9
	50.6	—	50.6
Creditors: due within one year	(66.9)	—	(66.9)
Net current assets	(16.3)	—	(16.3)
Total assets less current liabilities	30.8	—	30.8
Creditors: due after one year	(100.3)	50.0	(50.3)
Provisions for liabilities and charges	(5.6)	—	(5.6)
Minority interests	(0.1)	—	(0.1)
	(75.2)	50.0	(25.2)
Share capital	0.3	2.9	3.2
Share premium	57.3	47.1	104.4
Revaluation reserve	6.1	—	6.1
Profit and loss account	6.1	—	6.1
	69.8	50.0	119.8
Other reserves – goodwill	(145.0)	—	(145.0)
	(75.2)	50.0	(25.2)

The adjustments made to the balance sheet above are as follows:

(i) The net proceeds to the Company from the subscription for the new Ordinary Shares, after deduction of estimated expenses of £2.6 million, are £55.2 million, which will be applied as to £35.0 million in repayment of the medium term loan, £15.0 million in repayment of the mezzanine loan and £5.2 million in redeeming the balance of the Company's redeemable preference share capital ("CRPs");

(ii) The redemption of the CRPs reduces the share capital by £0.3 million, and the premium of £29.7 million payable on redemption is paid out of the net proceeds of the Offer;

(iii) The application by certain holders of CRPs of £24.8 million of the proceeds of redemption of their CRPs in subscribing for new Ordinary Shares increases the share capital by £0.5 million and the share premium by £24.3 million;

(iv) The estimated expenses of £2.6 million, which will be met from the proceeds of the Offer, reduce the share premium;

(v) The proceeds, before deduction of estimated expenses, will be credited to reserves as to £1.2 million to the share capital and £56.6 million as to share premium; and

(vi) The net effect of the capital reorganisation is to increase the share capital by £1.5 million and reduce the share premium by £1.5 million.

PART IV

Further information

Incorporation and share capital

(a) The Company was incorporated in England and Wales under the Companies Act 1985 ("the Act") on 16th January, 1987 with the name Chiefrule Limited as a private limited company with registered number 2090126. The name of the Company was changed to Compass Group Limited on 3rd August, 1987. The Company was re-registered as a public company on 15th November, 1988.

(b) On incorporation, the authorised share capital of the Company was £100 divided into 100 shares of £1 each, of which 2 were the subject of commitments by the subscribers to the Memorandum of Association.

(c) On 16th February, 1987, the shares taken by the subscribers to the Memorandum of Association were paid up in full, each of the existing ordinary shares of £1 was sub-divided into 100 ordinary shares of 1p each, the authorised share capital of the Company was increased from £100 to £2,500 by the creation of 240,000 ordinary shares of 1p each ranking *pari passu* with the existing ordinary shares and 187,300 of these shares were allotted for cash at a premium of 99p and were paid up in full.

(d) On 24th March, 1987, a further 62,500 ordinary shares of 1p each were allotted for cash at a premium of 99p and were paid up in full. Following this allotment Mr. G. J. Robinson held 83,332 ordinary shares of 1p each and the other Executive Directors (other than Mr. C. L. Allen) 41,667 each.

(e) On 30th July, 1987, the authorised share capital of the Company was increased from £2,500 to £343,200 by the creation of 30,000,000 Cumulative Redeemable Preference Shares of 1p each ("CRPs"), 3,500,000 Cumulative Convertible Participating Preferred Ordinary Shares of 1p each ("CCPPOs") and 570,000 ordinary shares of 1p each.

(f) On 31st July, 1987:

(i) 50,000 ordinary shares of 1p each were allotted for cash at a premium of 99p, 30,000,000 CRPs were allotted for cash at a premium of 99p and 3,500,000 CCPPOs were allotted for cash at a premium of £8.57 and all these shares were paid up in full; and

(ii) a warrant was issued to 3i plc ("3i") to subscribe for 375,824 ordinary shares of 1p each (subject to adjustment) in cash at par (see paragraph (a) of "Material contracts" below).

(g) On 16th December, 1987, options were granted under the Compass Group Limited Executive Share Option Scheme over 38,375 ordinary shares of 1p at a subscription price of 70p (of which options over 6,260 ordinary shares of 1p have since lapsed), on 28th March, 1988 options were granted over 2,200 ordinary shares of 1p at a subscription price of 70p and on 22nd July, 1988 options were granted over 14,855 ordinary shares of 1p at a subscription price of 70p.

(h) On 11th November, 1988, a special resolution was passed that, subject to and conditional on the Ordinary Shares, issued and to be issued, being admitted to the Official List of The Stock Exchange not later than 31st December, 1988:

(i) the authorised share capital be increased from £343,200 to £4,943,200 by the creation of an additional 460,000,000 ordinary shares of 1p each;

(ii) the Directors be authorised and directed to capitalise such sum as they may determine prior to such admission out of the amount standing to the credit of the share premium account of the Company and to apply such sum in paying up in full at par unissued ordinary shares of 1p each, such ordinary shares to be allotted and distributed, credited as fully paid up, (aa) to those persons who are the registered holders of ordinary shares of 1p each immediately prior to the date of such admission, (bb) to those persons who, immediately prior to the date of such admission, were the registered holders of the 775,269 CCPPOs to be converted into ordinary shares of 1p each in accordance with the Articles of Association of the Company and (cc) to those persons who, being holders of warrants to subscribe for ordinary shares of 1p each, had exercised their subscription rights prior to the date of such admission, in each case the new ordinary shares of 1p to be allotted to each such person in such proportion for each ordinary share of 1p (x) then held (in the case of (aa) above), (y) to be held following such conversion (in the case of (bb) above) or (z) then held or to be held as the result of such exercise (in the case of (cc) above) as the Directors may determine, provided that such proportion should be the same proportion in each case and should not, following the consolidation referred to in paragraph (iii), lead to any fractional entitlements to the

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(ii) 106,345 ordinary shares of 1p each be allotted to 3i in satisfaction of its rights under the warrant referred to in sub-paragraph (f)(ii) above and paragraph (a) in "Material contracts" below;

(iii) the sum of £1,524,282.06, being part of the sum standing to the credit of the Company's share premium account, be capitalised and applied in paying up in full at par 152,428,206 ordinary shares of 1p each, such shares to be allotted and distributed, credited as fully paid up, (aa) to the holders of the ordinary shares of 1p each of the Company immediately prior to the date of such admission, (bb) to those persons who, immediately prior to the date of such admission, were the registered holders of 775,269 CCPPOs to be converted into ordinary shares of 1p each in accordance with the Articles of Association of the Company and (cc) to those persons who, being holders of warrants to subscribe for ordinary shares of 1p each of the Company, have exercised their subscription rights prior to the date of such admission, in each case the new ordinary shares of 1p to be allotted to each such person to be allotted in the proportion of 129 new ordinary shares of 1p each for each ordinary share of 1p (x) then held (in the case of (aa) above), (y) to be held following such conversion (in the case of (bb) above) or (z) then held or to be held as the result of such exercise (in the case of (cc) above);

(iv) 23,593,718 Ordinary Shares be allotted at the Offer price pursuant to the Offer Agreement referred to in "Offer arrangements" below, of which 2,113,714 Ordinary Shares be issued to Cushion Trust Limited as nominee for those persons allocated such Ordinary Shares pursuant to the Offer, the proceeds of issue of all of which will be used to finance the redemption of the CRPs; and

(v) 10,131,184 Ordinary Shares be allotted at the Offer price to the holders of the redeemable preference share capital of the Company who had elected to apply the redemption proceeds of such share capital in subscribing for Ordinary Shares at that price pursuant to the agreements referred to in paragraph (h) of "Offer arrangements" below.

(j) Save as disclosed in this paragraph or pursuant to the executive share option schemes or the SAYE Scheme described below, no share or loan capital of the Company has been issued within the three years immediately preceding the date of this document or is proposed to be issued, fully or partly paid, for cash or for a consideration other than cash.

(k) The following table shows the authorised and the issued and fully paid share capital of the Company as it will be following the Offer:

	Nominal amount	Number
Authorised share capital: Ordinary Shares of 5p each	£4,943,200	98,864,000
Issued and fully paid: Ordinary Shares of 5p each	£3,222,343	64,446,866

(l) Save as disclosed herein, no material issue of shares (other than to shareholders pro rata to their shareholdings or pursuant to the executive share option schemes and the SAYE Scheme described below) will be made by the Company within a year of the date of this document without the prior approval of the Company in general meeting. The Directors have resolved that no issue of shares (other than pursuant to the executive share option schemes or the SAYE Scheme described below) in excess of one third of the issued share capital of the Company for the time being will be made without the prior approval of the Company in general meeting.

(m) Save as disclosed in "Executive share option schemes" below, no unissued capital of the Company is under option or agreed conditionally or unconditionally to be put under option.

Memorandum and Articles of Association

The Memorandum of Association of the Company provides that the Company's principal object is to carry on the business of a holding company. The objects of the Company are set out in full in clause 4 of the Memorandum of Association.

The Articles of Association of the Company ("the Articles") were adopted pursuant to a special resolution of the Company passed on 11th November, 1988, subject to and conditionally upon the Ordinary Shares, issued and to be issued, being admitted to the Official List of The Stock Exchange. The Articles contain provisions, *inter alia*, to the effect set out below:

(a) Share rights

(i) Voting

Subject to disenfranchisement in the event of non-compliance with a notice under section 212 of the Act, on a show of hands every member who (being an individual) is present in person or (being a corporation) is present by a duly authorised representative has one vote, and on a poll every member present in person or by proxy has one vote for every share held by him.

(ii) Dividends and other distributions

Subject to any preferential or special rights attaching to any shares issued in the future, holders of Ordinary Shares are entitled *pari passu* amongst themselves, but in proportion to the amounts paid up on the shares held by them, to share in the whole of the profits of the Company paid out as dividends and the whole of any surplus in the event of liquidation of the Company. Any dividend unclaimed for a period of 12 years after having been declared will, if the Board of Directors of the Company ("the Board") so resolves, be forfeited and will revert to the Company.

(iii) Transfer of shares

Any member may transfer all or any of his shares by an instrument of transfer in the usual form or in any other form which the Board may approve. Every transfer must be executed by or on behalf of the transferor and, unless the share is fully paid, by or on behalf of the transferee. The Board may, in its absolute discretion and without giving any reason, refuse to register the transfer of a share which is not fully paid. The Board may refuse to register a transfer unless it is lodged, duly stamped, at the registered office of the Company or at such other place as the Board may appoint and is accompanied by the certificate for the shares to which it relates and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer; is in respect of only one class of shares; and is in favour of not more than four transferees.

(iv) Variation of class rights and alteration of share capital

(aa) Whenever the capital is divided into different classes of shares, the rights attached to any class may (unless otherwise provided by the terms of issue of the shares of that class) be varied or abrogated, whether or not the Company is being wound up, either with the consent in writing of the holders of three-quarters in nominal value of the issued shares of the class, or with the sanction of an extraordinary resolution passed at a separate general meeting of such holders (but not otherwise). Unless otherwise provided by the rights attached to any shares or class of shares, these rights are deemed to be varied by the reduction of the capital paid up on the shares and by the allotment of further shares ranking in priority for payment of a dividend or in respect of capital or which confer on the holders voting rights more favourable than those conferred by such first mentioned shares, but shall not otherwise be deemed to be varied by the creation or issue of further shares.

(bb) Subject to the provisions of the Companies Acts (as defined in the Articles) and without prejudice to any rights attached to any existing shares or class of shares, the Company may issue shares with such rights or restrictions as it may by ordinary resolution determine or, subject to and in default of such determination, as the Board determines. Redeemable shares may be issued on such terms and in such manner as may be provided by the Articles.

(cc) The Company may by ordinary resolution increase its share capital, consolidate and divide its share capital into shares of a larger amount, subdivide its share capital into shares of smaller amount (subject to the provisions of the Companies Acts) or cancel any shares which have not been taken or agreed to be taken by any person and diminish the amount of its authorised share capital by the amount of the shares so cancelled.

(dd) Subject to and in accordance with the provisions of the Companies Acts, the Company may by special resolution reduce its share capital, any capital redemption reserve and any share premium account in any way. Subject to and in accordance with the provisions of the Companies Acts and without prejudice to any relevant special rights attached to any class of shares, the Company may purchase its own shares.

(b) Directors

(i) At every annual general meeting, the nearest number to one-third of the Directors for the time being excluding the Managing Director and a Director holding any other executive office, shall retire by rotation and be eligible for re-election. The Directors to retire will be those who have been longest in office or, in the case of those who became or who were re-elected Directors on the same day, shall, unless they otherwise agree, be determined by lot. Any Director appointed by the Board shall hold office only until the next following annual general meeting, when he shall be eligible for re-election but shall not be taken into account in determining the number of Directors to retire by rotation at that meeting.

(ii) Save as provided in (iii) below, a Director may not vote (nor be counted in the quorum) on any resolution of the Board in respect of any matter in which he has, directly or indirectly, an interest or duty (other than by virtue of his interest in shares or debentures or other securities of or otherwise in or through the Company) which is material. If he shall so vote his vote will not be counted. The Company may by ordinary resolution suspend or relax such provisions to any extent or ratify any transaction not duly authorised by reason of a contravention of such provisions.

(iii) The prohibition in (ii) above does not apply to a Director in relation to

(aa) the giving to him of a guarantee, security or indemnity in respect of money lent by him to, or an obligation incurred by him, at the request of or for the benefit of, the Company or of any of its subsidiaries;

(bb) the giving to a third party of any guarantee, security or indemnity in respect of an obligation of the Company or any of its subsidiaries for which the Director has assumed responsibility (in whole or in part, whether alone or jointly with others) under a guarantee or indemnity or by the giving of security;

(cc) the subscription for or underwriting of any shares, debentures or other securities of the Company or any of its subsidiaries by him;

(dd) any contract or arrangement concerning any other company in which he is interested directly or indirectly (not being a company in which he is beneficially interested in 1 per cent. or more of the equity share capital or voting rights); or

(ee) any proposal relating in any way to a retirement benefits scheme which has been approved, or is conditional upon approval, by the Board of Inland Revenue for taxation purposes.

(iv) Remuneration

The non-executive Directors shall be paid out of the funds of the Company by way of remuneration for their services as Directors such sum as the Board may determine, not exceeding £250,000 in aggregate per annum, or such higher amount as may from time to time be determined by ordinary resolution. The Directors may also be paid all travelling, hotel and other expenses properly incurred by them in connection with their attendance at meetings or otherwise in connection with the discharge of their duties. Any Director who by request of the Board performs special services or goes or resides abroad for any purpose of the Company may be paid such extra remuneration by way of salary, percentage of profits or otherwise as the Board may determine. Any Director who is appointed to any executive office shall be entitled to receive such remuneration, including benefits under pension and life assurance schemes, as the Board may determine.

(v) Pensions, benefits etc.

The Board may (by establishment of or maintenance of schemes or otherwise) pay or procure the payment of pensions, gratuities and other benefits to, among others, any past or present Director or employee of the Company or any of its subsidiary or associated companies or any business acquired by any of them, or to any person who is or was related to or dependent on any such Director or employee. The Board may, in accordance with section 719 of the Act, make such provision as may seem appropriate for the benefit of persons employed or formerly employed by the Company or any of its subsidiaries in connection with the cessation or transfer of the whole or part of the undertaking of the Company or any subsidiary.

(vi) Age limit

The Articles of Association do not contain any provisions varying or excluding section 293 of the Act which, *inter alia*, prevents the appointment and requires the retirement of Directors who have attained the age of 70 unless the contrary is decided by a resolution in general meeting of which special notice has been given.

(c) Borrowing powers

The Board may exercise all the powers of the Company to borrow money, and to mortgage or charge its undertaking, property and uncalled share capital, and to issue debentures and other securities, whether outright or as collateral security, for any debt, liability or obligation of the Company or of any third party.

(d) Untraced shareholders

Subject to various notice requirements prescribed by The Stock Exchange, the Company may sell any shares of a member who is untraceable if, during a period of 12 years, at least three dividends in respect of the shares in question have become payable and the cheques or warrants for all amounts payable to the member in respect of his shares have remained uncashed and the Company has received no indication of the existence of such member.

Executive share option schemes

The Company operates two executive share option schemes for employees:

(a) the Compass Group Limited Executive Share Option Scheme ("the 1987 Scheme"); and

(b) the Compass Group PLC Executive Share Option Scheme 1988 ("the 1988 Scheme").

The maximum number of Ordinary Shares which may be put under option pursuant to the 1987 Scheme and the 1988 Scheme is 3,222,343 Ordinary Shares (representing approximately five per cent. of the Company's issued share capital immediately following the Offer).

The 1987 Scheme

The 1987 Scheme was approved by written resolution of the Company effective on 20th October, 1987. The 1987 Scheme is approved by the Inland Revenue for the purposes of Paragraph 1, Schedule 9 to the Income and Corporation Taxes Act 1988 ("Schedule 9"). The 1987 Scheme is a group scheme applying to the Company and such of the companies for the time being under its control as the Directors shall have resolved to include in the 1987 Scheme (together the "participating companies").

Provided certain conditions are satisfied, an option holder under an approved scheme is not liable to income tax on any increase in the value of shares under option between the time the option is granted and the time of its exercise.

At the date hereof, options (excluding any which have already lapsed) have been granted over the equivalent of 1,278,420 Ordinary Shares at a subscription price equivalent to 2.7p per Ordinary Share. These options are exercisable up to dates between December, 1997 and July, 1998.

The principal terms of the 1987 Scheme are to the following effect:

(a) The Directors (or a duly appointed committee thereof) are authorised under the 1987 Scheme to grant options to such full-time directors and employees of the participating companies (other than Mr. C. D. Bucknall, Mr. R. Dickson, Mr. D. Harris, Mr. F. H. Mackay and Mr. G. J. Robinson) as they may in their absolute discretion select, except that no grant can be made to directors or employees within two years of their normal retirement date.

(b) After the date hereof options may be granted only in the six week period following the date on which the annual or half-yearly results of the Company are announced for any period. Options are granted under the seal of the Company, and no further consideration need be given for the grant of an option.

(c) An option entitles the holder to subscribe for Ordinary Shares at a price per Share determined by the Directors, such price being not less than the higher of (i) the nominal value of an Ordinary Share and (ii) the average of the middle market quotations of an Ordinary Share on The Stock Exchange for the period of three business days immediately preceding the date of grant of the option (or, in relation to grants made before the admission of the Ordinary Shares to the Official List of The Stock Exchange, the market value as agreed with the Inland Revenue for the purposes of Schedule 9).

(d) No individual may be granted options over Ordinary Shares if, at the time of grant, the aggregate subscription price of Ordinary Shares which he may acquire on exercise of options granted under any executive share option scheme operated by the Company would exceed four times his relevant emoluments as defined in Schedule 9 (broadly, annual salary subject to PAYE). In the case of a director or employee working outside the UK the relevant limit is £100,000.

(e) Options, which are not transferable, may only be exercised between the third and tenth anniversary of the date of grant (at the end of which period they will lapse) and only where the holder remains an employee of a participating company.

(f) Options may, however, be exercised in specific circumstances and within certain time limits where the holder dies, leaves his employment as a result of injury, illness, disability, redundancy, permanent ill health or retirement, where the company by which he is employed ceases to be a participating company for the purposes of the 1987 Scheme or where the Company is the subject of a takeover, reconstruction, amalgamation or voluntary winding-up. In addition, in the event of a change in control of the Company, options may, subject to the requirements of Schedule 9 and the acquiring company's consent, be exchanged for options over the acquiring company's shares. In the absence of exercise or exchange, options will lapse where any of these circumstances arise.

(g) Ordinary Shares issued pursuant to the 1987 Scheme will rank *pari passu* in all respects with Ordinary Shares then in issue. Application will be made to the Council of The Stock Exchange for the admission of the Ordinary Shares issued pursuant to the 1987 Scheme to the Official List.

(h) In the event of any reorganisation of the Company's share capital, the Directors may, subject to Inland Revenue approval, adjust the number of shares available for issue under the 1987 Scheme, the number of shares comprised in any option and the price at which these options may be exercised, provided that the Auditors have reported to the Directors that such adjustment is in their opinion fair and reasonable.

The 1988 Scheme

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Working capital

The Directors consider that, taking into account its existing bank facilities and the estimated net proceeds of the Offer, the Group will have sufficient working capital for its present requirements.

Consents

Touche Ross & Co., Conrad Ritblat & Co. and Gira (U.K.) Limited have given and have not withdrawn their respective written consents to the issue of this document with the inclusion of the Accountants' report, the references to the property valuation or to them (as the case may be) in the form and context in which they are respectively included.

General

(a) The total costs and expenses in connection with the Offer (including commissions payable to financial intermediaries) are estimated to amount to £2.6 million, and save as provided in "Offer arrangements" above, are payable by the Company.

(b) The financial information relating to the Group included in this document does not comprise full accounts as referred to in section 254 of the Companies Act 1985. The Company was incorporated on 16th January, 1987 and its first accounting period ended on 27th September, 1987. Full accounts of the Group in respect of the period ended 27th September, 1987 have been delivered to the Registrar of Companies and full accounts of the subsidiaries of the Company incorporated in the United Kingdom other than dormant companies for the four years to 27th September, 1987 have been delivered to the Registrar of Companies. Full accounts of the Group for the year ended 25th September, 1988 will be delivered to the Registrar of Companies. In respect of the accounts of the Group for the two accounting periods ended 25th September, 1988 and of the subsidiaries incorporated in the United Kingdom (other than Rosser & Russell) for the year ended 27th September, 1987, Touche Ross & Co. provided a report which is unqualified within the meaning of section 236 of the Act. In respect of the accounts of the subsidiaries incorporated in the United Kingdom of the Company for the three years to 30th September, 1986 reports which (except in respect of Rosser & Russell and, in respect of the financial periods ended 30th September, 1985 and 1986, certain subsidiaries of Compass Healthcare) were unqualified within the meaning of section 236 of the Act were provided in certain cases by KMG Thomson McLintock and in other cases by Stoy Hayward. In respect of the period ended 30th September, 1984 the accounts of Rosser & Russell were qualified by reason of incomplete books and records for the period prior to its acquisition by Grand Metropolitan. In respect of the other periods and other companies mentioned above, the relevant accounts were qualified by reason of non-compliance with SSAP10 (Statements of source and application of funds) and, in some cases, SSAP15 (Accounting for deferred tax).

(c) Save as disclosed in this document, there has been no significant change in the financial or trading position of the Group since 25th September, 1988.

(d) The Ordinary Shares offered for subscription on behalf of the Company pursuant to the Offer are being offered at a premium of 240p per share. They will be registered securities.

(e) The Ordinary Shares will not be "wider range investments" within the meaning of the Trustee Investments Act 1961 following the Offer.

(f) Following admission of the Ordinary Shares to the Official List, dividends will be payable to the former holders of CRPs and CCPPOs under the provisions of the existing Articles of Association of the Company. On the basis of admission of the Ordinary Shares to the Official List on 21st December, 1988 these will amount in aggregate to £846,187. If admission takes place on a later date these dividends will be increased on a pro rata basis.

(g) Following admission of the Ordinary Shares to the Official List the Company will repay £35.0 million and £15.0 million, respectively, of the amounts outstanding under the Senior Loan Agreement and the Loan Agreement referred to in paragraphs (d) and (e) of "Material contracts" above.

Documents for inspection

Copies of the following documents may be inspected at the offices of Freshfields, Grindall House, 25 Newgate Street, London EC1A 7LH during normal business hours (Saturdays and public holidays excepted) until 21st December, 1988:

(a) the Memorandum of Association of the Company, the Articles and the existing Articles of Association of the Company;

(b) the audited consolidated accounts of the Company for the two financial periods ended 25th September, 1988;

(c) the Accountants' report set out in Part II;

(d) a statement of the adjustments made by Touche Ross & Co. in arriving at the figures set out in their report and giving their reasons therefor;

(e) the property valuation referred to in note 1 of "Notes to the consolidated balance sheets" of "Accountants' report" in Part II;

(f) the service agreements referred to in paragraph (c) of "Directors' and other interests" above;

(g) the material contracts referred to in "Material contracts" above;

(h) the consents referred to in "Consents" above;

(i) the rules of the 1987 Scheme and of the 1988 Scheme; and

(j) the rules of the SAYE Scheme.

Dated: 6th December, 1988

Terms and conditions of application

1. The contracts arising from acceptance of applications will be conditional on the Ordinary Shares, issued and to be issued, being admitted to the Official List of The Stock Exchange not later than 31st December, 1988 and on the Offer Agreement referred to in "Offer arrangements" in the section headed "Further information" of Part IV of the Listing Particulars not being terminated in accordance with its terms. Cheques or banker's drafts for the amounts payable on application may be presented for payment before such conditions are satisfied and the application moneys represented thereby will be held by National Westminster Bank PLC, New Issues Department, in a separate bank account and, if such conditions are not satisfied, will be returned (without interest) by crossed cheque in favour of the applicant(s) by post at the risk of the applicant(s). It is expected that the Ordinary Shares will be admitted to the Official List on 21st December, 1988.

2. Preferential consideration will be given to applications on Preferential Application Forms for Employees received from eligible employees ("employees preferential applications") for themselves only for an aggregate maximum of 1,000,000 Ordinary Shares (4.1 per cent. of the Ordinary Shares now being offered).

3. Subject to these terms and conditions, Lazard Brothers, for itself and as agent for the Company, reserves the right to reject in whole or in part or to scale down any applications including, in particular, multiple or suspected multiple applications, and to present for payment any cheques or banker's drafts on receipt. If any application is not accepted, or is accepted for fewer shares than the number applied for, the application moneys, or, as the case may be, the balance thereof, will be returned (without interest) by sending the applicant's cheque or a crossed cheque in favour of the applicant(s) by post at the risk of the applicant(s).

4. Applications (other than employees' preferential applications) must be made on the accompanying Application Form. By completing and delivering an Application Form, the person(s) named in Box 4 and Box 5 (if applicable), as the applicant(s) and, in relation to paragraphs (h) and (j), you, as signatory (if not an applicant):

(a) offer to acquire the number of Ordinary Shares specified in your Application Form (or such smaller number for which the application may be accepted) at the Offer price and on the terms and subject to the conditions set out herein (of which the Guide to completing the application form forms part) and subject to the Listing Particulars and the Memorandum and Articles of Association of the Company;

(b) authorise National Westminster Bank PLC, New Issues Department, to send on behalf of Lazard Brothers and/or the Company, as appropriate, a Letter of Acceptance for the number of shares for which your application is accepted and/or a crossed cheque for any money returnable, by post, at the risk of the applicant(s), to your address (or, in the case of joint applicants, to that of the first-named applicant) as set out in your Application Form and to procure that your name (together with the name(s) of any other joint applicant(s)) is/are placed on the register of members of the Company in respect of such shares the entitlement to which has not been duly renounced and, pending such registration, to procure that the name of Lazard Brothers (or any nominee or nominees of Lazard Brothers) is/are placed on such register of members as bare trustee for you in respect of any such Ordinary Shares or, if you renounce your right to any of such Ordinary Shares, in relation to the Ordinary Shares the right to which has been so renounced, the person(s) from time to time entitled to become the registered holder of such shares in accordance with the terms of the Letter of Acceptance;

(c) agree that, in consideration of each of Lazard Brothers and the Company agreeing that it will not prior to 31st December, 1988 sell or, as the case may be, allot any of the shares offered to any person other than by means of the procedures referred to in the Listing Particulars, your application may not be revoked until after 31st December, 1988 and that this paragraph shall constitute a collateral contract between you, Lazard Brothers and the Company which will become binding on despatch by post to or, in the case of applications delivered by hand, receipt by National Westminster Bank PLC, New Issues Department, of the Application Form;

(d) warrant that your remittance will be honoured on first presentation;

(e) agree that any Letter of Acceptance to which you may become entitled and moneys returnable to you may be retained pending clearance of your remittance;

(f) agree that in respect of those shares for which your application has been received and is not rejected, allocation of such shares to you shall be constituted, at the election of Lazard Brothers either by notification to The Stock Exchange of the basis of allocation (in which case allocation shall be on that basis) or by the determination of the number of shares to be allocated pursuant to the arrangements made between Lazard Brothers, National Westminster Bank PLC and the Company;

(g) agree that all applications, acceptances of applications and contracts resulting therefrom under the Offer shall be governed by, and construed in accordance with, English law and that you submit to the jurisdiction of the English courts;

(h) warrant that, if you sign the Application Form on behalf of somebody else, you have the authority to do so;

(i) confirm that in making this application you are not relying on any information or representation in relation to the Company or to any other member of the Group other than such as may be contained in the Listing Particulars and you accordingly agree that no person responsible solely or jointly for this document, or any part thereof, shall have any liability for any such information or representation;

(j) warrant that no other application (not being an employees' preferential application) is being made by you for your benefit or by another on your behalf and with your knowledge for such purpose or, if you are applying as agent or nominee of another, no other application is being made for the benefit of that person by you or, as far as you are aware, by that person or by any other person, and that other person is not, to your knowledge, acting in concert with any other person or persons as aforesaid; and

(k) warrant that you are not a US person (which expression shall mean any individual who is a national, citizen or resident of the United States of America or its possessions and territories or other areas subject to its jurisdiction, or any political subdivision thereof, or any corporation, partnership or other entity created or organised therein or any estate or trust the income of which is subject to United States federal income taxation regardless of its source) and are not applying on behalf of, or with a view to re-offer, sale, renunciation or transfer to, or for the benefit of, any such person.

5. The basis of allocation will be determined by Lazard Brothers in its discretion after consultation with the Company. An applicant may be allocated new shares allotted by the Company and/or shares sold by Lazard Brothers pro rata (as nearly as practicable) to the number of shares so allotted and sold or in such other proportion as Lazard Brothers may in its absolute discretion determine and announce at the same time as the announcement of the basis of allocation of the shares subject to the Offer. In accordance with the normal principles of English law, the remedies available to persons contracting with the Company in relation to new shares may differ from those available to persons contracting with Lazard Brothers in relation to shares sold by Lazard Brothers.

6. No person receiving a copy of the Listing Particulars or an Application Form in any territory other than the United Kingdom may treat the same as constituting an invitation or offer to him, nor should he in any event use such form unless, in the relevant territory, such an invitation or offer could lawfully be made to him or such form could lawfully be used without contravention of any registration or other regulatory or legal requirements. Any person outside the United Kingdom wishing to make an application hereunder must satisfy himself as to full observance of the laws of any relevant territory in connection therewith, including obtaining any requisite governmental or other consents which may be required and compliance with any other requisite formalities, and paying any issue, transfer or other taxes due in any such territory.

7. The shares which are being offered have not been, and will not be, registered under the United States Securities Act of 1933, as amended. Accordingly, such shares may not be offered, sold, renounced or transferred, directly or indirectly, in the United States or to, or for the benefit of, any US person or to any person purchasing such shares for re-offer, sale, renunciation or transfer in the United States or to, or for the benefit of, any US person as part of the distribution of such shares. The terms and conditions of application incorporate a warranty that the applicant is not a US person and is not applying on behalf of, or with a view to re-offer, sale, renunciation or transfer to, or for the benefit of, any US person. Registration application forms on Letters of Acceptance will contain a warranty to the same effect by or on behalf of the person in whose names the shares are to be registered.

Basis of acceptance and dealing arrangements

The application lists will open at 10.00 a.m. on 13th December, 1988 and will close as soon thereafter as Lazard Brothers may determine. The basis of allocation will be announced as soon as possible after the application lists close. It is expected that temporary documents of title, in the form of renounceable Letters of Acceptance, will be posted to successful applicants by not later than 19th December, 1988 but will not be negotiable until 21st December, 1988. Dealings in the Ordinary Shares are expected to commence on 21st December, 1988. Dealings prior to receipt of renounceable Letters of Acceptance will be at the risk of applicants. A person so dealing must recognise the risk that an application may not have been accepted to the extent anticipated or at all.

A successful applicant may sell or otherwise dispose of some or all of the Ordinary Shares in respect of which his application has been accepted by execution of the form of renunciation on his Letter of Acceptance and delivery of the Letter of Acceptance to the transferee.

Arrangements have been made for registration of all Ordinary Shares now offered, free of stamp duty and registration fees, in the names of purchasers or persons in whose favour Letters of Acceptance are duly renounced provided that, in cases of renunciation, Letters of Acceptance (duly completed in accordance with the instructions contained therein) are lodged for registration by 3.00 p.m. on 25th January, 1989. After this time, an instrument of transfer must be used. Share certificates will be despatched by first class post on or before 24th February, 1989.

Up to a total of 1,000,000 Ordinary Shares (representing 4.1 per cent. of the number of Ordinary Shares being offered) will be reserved in the first instance to meet applications on preferential application forms from employees of the Group.

Stamp duty and stamp duty reserve tax

A charge to ad valorem stamp duty, generally at the rate of 50p per £100 (or part thereof), will arise on registration of applications in respect of certain of the shares sold by Lazard Brothers. Arrangements have been made for the stamp duty payable on registration of applications to be paid by Lazard Brothers. Accordingly, successful applicants and those purchasers of rights to shares represented by Letters of Acceptance who apply for registration on or before 3.00 p.m. on 25th January, 1989 need take no action in relation to stamp duty (although such persons may be liable to stamp duty reserve tax ("SDRT"), as mentioned in (b) below). In addition a charge to SDRT, generally at the rate of 50p per £100 (or part thereof), will arise on the issue of Letters of Acceptance in respect of certain of the shares sold by Lazard Brothers. Arrangements have been made for the SDRT so payable to be discharged by Lazard Brothers on behalf of applicants. However, the above arrangements will not apply to any stamp duty or SDRT which may arise under sections 67, 70, 93 or 96 of the Finance Act 1986, which may apply if an applicant (in the case of SDRT) or (in the case of stamp duty) a person applying for registration (i) is a nominee or agent for, a person whose business is, or includes, either issuing depositary receipts or providing clearance services or (ii) is specified by the Treasury for the purposes of sub-section (7) or (8) of section 67 or 70 of the Finance Act 1986 as falling within those sub-sections.

In addition, the Directors have been advised that:

(a) no SDRT will be payable on the registration of shares obtained pursuant to Letters of Acceptance, whether or not they have been renounced prior to registration;

(b) a purchaser for a consideration in money or money's worth of rights to shares represented by a Letter of Acceptance will generally be liable to SDRT at the rate of 50p per £100 (or part thereof) of the amount or value of the consideration paid; and

(c) the transfer on sale of shares represented by a Letter of Acceptance after the latest time for registration of renunciations will generally be subject to ad valorem stamp duty on the instrument of transfer at the rate of 50p per £100 (or part thereof) of the amount or value of the consideration paid and an unconditional agreement to transfer such shares, if not completed by a duly stamped transfer within two months of the date of such agreement, will generally be subject to SDRT at the rate of 50p per £100 (or part thereof) of the consideration paid.

The charge to SDRT will not generally apply to a market maker and certain purchases by a broker dealer.

The above statements are intended only as a general guide to the current position. Certain categories of person are not liable to SDRT, and others may be liable at higher rates or may, although not primarily liable for the tax, be required to notify and account for it under the Stamp Duty Reserve Tax Regulations 1986.

IF YOU HAVE ANY DOUBT AS TO YOUR TAXATION POSITION, YOU ARE RECOMMENDED TO CONSULT AN APPROPRIATE PROFESSIONAL ADVISER.

Availability of copies of the Listing Particulars

Copies of the Listing Particulars and Application Form, which have been published, may be obtained from:

Lazard Brothers & Co., Limited,
21 Moorfields,
London EC2P 2HT

James Capel & Co. Limited,
James Capel House,
6 Bevis Marks,
London EC3A 7JQ

National Westminster Bank PLC,
New Issues Department,
P.O. Box 33, 153-157 Commercial Road,
London E1 2DB

National Westminster Bank PLC,
New Issues Department,
P.O. Box 79, 2 Princes Street,
London EC2P 2BD

and from the following branches of **National Westminster Bank PLC:**

Birmingham
City Office,
P.O. Box 87,
Colmore Centre,
103 Colmore Row,
Birmingham B3 3NS

Bristol
City Office,
P.O. Box 238,
32 Corn Street,
Bristol BS99 7UG

Cardiff
P.O. Box 117,
117 St. Mary Street,
Cardiff CF1 1LG

Edinburgh
80 George Street,
Edinburgh EH2 3DZ

Glasgow
14 Blythswood Square,
Glasgow G2 4AQ

Leeds
City Office,
P.O. Box 154,
8 Park Row,
Leeds LS1 1QS

Manchester
City Office,
P.O. Box 305,
55 King Street,
Manchester M60 2DB

Newcastle upon Tyne
24 Mosley Street,
Newcastle upon Tyne,
NE1 1YW

Nottingham
P.O. Box 21,
3 Thurland Street,
Nottingham NG1 3DT

and from:
Ulster Bank Limited,
Personal Investment Unit,
88-90 High Street,
Belfast,
Northern Ireland BT1 2ER

and from the registered office of the Company:
Compass Group PLC,
Queen's Wharf,
Queen Caroline Street,
London W6 9RJ

PART V

Guide to completing the application form

1 Insert in Box 1 (in figures) the number of Ordinary Shares for which you are applying. Application must be for a minimum of 200 Ordinary Shares or in one of the following multiples:

—for not more than 1,000 shares, in a multiple of 200 shares

—for more than 1,000 shares, but not more than 10,000 shares, in a multiple of 1,000 shares

—for more than 10,000 shares, but not more than 100,000 shares, in a multiple of 10,000 shares

—for more than 100,000 shares, in a multiple of 50,000 shares.

2 Put in Box 2 (in figures) the amount of your cheque or banker's draft. The amount of your cheque or banker's draft should be 245p multiplied by the number of Ordinary Shares inserted in Box 1.

For example:

Number of Ordinary Shares	Amount you must pay
200	£490
400	£980
1,000	£2,450
5,000	£12,250
10,000	£24,500

3 Date and sign the application form in Box 3.

The application form may be signed by someone else on your behalf if duly authorised to do so. Persons signing on behalf of applicants who are individuals must enclose the relevant power of attorney for inspection. A corporation should sign under the hand of a duly authorised official whose representative capacity must be stated.

4 Put your full name and address in BLOCK CAPITALS in Box 4.

Applications may not be made by persons under the age of 18.

5 You must attach a separate cheque or banker's draft to each completed application form. Your cheque or banker's draft must be made payable to National Westminster Bank PLC for the amount payable on application inserted in Box 2 and should be crossed "Not negotiable—Compass Offer".

No receipt will be issued for this payment, which must be solely for this application.

Your cheque or banker's draft must be drawn in sterling on an account at a branch (which must be in the United Kingdom, the Channel Islands or the Isle of Man) of a bank which is either a member of the Committee of London and Scottish Bankers or which has its cheques and banker's drafts cleared through the same clearing system as the members of that Committee (and must bear the appropriate sorting code number in the top right hand corner).

Applications may be accompanied by a cheque drawn by someone other than the applicant(s), but any moneys to be returned will be sent by crossed cheque in favour of the applicant(s).

If you are also applying on the Preferential Application Form for Employees you must pin a separate cheque or banker's draft to each completed application form.

6 **You may apply jointly with up to three other persons.** You must then arrange for the application form to be completed by or on behalf of each applicant. Their full names and addresses should be put in BLOCK CAPITALS in Box 6.

7 **Box 7 must be signed by or on behalf of each joint applicant (other than the first applicant who should complete Box 4 and sign in Box 3).**

Persons signing on behalf of applicants who are individuals must enclose the relevant power(s) of attorney for inspection.

• You must send the completed application form together with the cheque or banker's draft by post to National Westminster Bank PLC, New Issues Department, P.O. Box 33, 153–157 Commercial Road, London E1 2DB or deliver it by hand, to National Westminster Bank PLC, New Issues Department, 2 Princes Street, London EC2 so as to be received not later than 10.00 a.m. on Tuesday, 13th December, 1988.

• In view of the Christmas post, you are encouraged to deliver your application form by hand, if possible.

• If you post your application form, you are recommended to use first class post and to allow at least two business days for delivery.

• Photostat copies of application forms will not be accepted.

MULTIPLE OR SUSPECTED MULTIPLE APPLICATIONS MAY BE REJECTED IN THEIR ENTIRETY.

Application form

Compass Group PLC

(registered in England and Wales No. 2090126)

Offer by Lazard Brothers & Co., Limited of 24,673,550 Ordinary Shares of 5p each in Compass Group PLC at 245p per share, payable in full on application.

1 I/We offer to acquire ______

Ordinary Shares of 5p each in Compass Group PLC (or such lesser number of shares in respect of which this application may be accepted) at 245p per share on the terms and subject to the conditions attaching to this application form

2 and I/we attach a cheque or banker's draft payable to National Westminster Bank PLC crossed "Not negotiable—Compass Offer" for the amount payable, namely £ ______

3 Dated ______ 1988 Signature ______

PLEASE USE BLOCK CAPITALS

4 Mr., Mrs., Miss or title ______
Forename(s) in full ______
Surname ______
Address in full ______
Postcode ______

5 ✂ ☐ Pin here your cheque/banker's draft for the amount in Box 2

FOR OFFICIAL USE ONLY
1. Form No.
2. Acceptance No.
3. Shares allocated
4. Amount received £
5. Amount payable £
6. Amount returned £
7. Cheque No.

Fill in the following section only when there is more than one applicant. The first or sole applicant should complete Box 4 and date and sign Box 3. Insert below only the name(s) and address(es) of the second and subsequent applicant(s), each of whose signature, or the signature of the person signing on their behalf, is required in Box 7.

PLEASE USE BLOCK CAPITALS

6

Mr., Mrs., Miss or title	Mr., Mrs., Miss or title	Mr., Mrs., Miss or title
Forename(s)	Forename(s)	Forename(s)
Surname	Surname	Surname
Address	Address	Address
Postcode	Postcode	Postcode

7

Signature	Signature	Signature

Before making any application to acquire any Ordinary Shares you are recommended to consult an independent financial adviser authorised pursuant to the Financial Services Act 1986.

You must send this completed application form together with the cheque or banker's draft by post to National Westminster Bank PLC, New Issues Department, P.O. Box 33, 153–157 Commercial Road, London E1 2DB, or deliver it by hand, to National Westminster Bank PLC, New Issues Department, 2 Princes Street, London EC2 so as to be received not later than 10.00 a.m. on Tuesday, 13th December, 1988. Any person signing this application form under a power of attorney must enclose the original power of attorney (or a copy thereof certified in accordance with the Powers of Attorney Act 1971) for inspection.

If you post your application form, you are recommended to use first class post and to allow at least two business days for delivery. In view of the Christmas post, you are encouraged to deliver your application form by hand, if possible.

COMMODITIES AND AGRICULTURE

S African gold mining could grow with tax cut

By Jim Jones in Johannesburg

FIFTEEN NEW, major gold mines could be developed in South Africa and the country's gold output extended well beyond the year 2030 if the government accepts official proposals for lower mining taxes.

This is a main finding of a technical committee, led by Mr Georg Marais, Deputy Finance Minister, which yesterday reported on mining taxation. It proposes:

- A tax formula which in effect taxes gold mining at the same 50 per cent rate as other industries.
- Gradual scrapping of the 25 per cent surcharge on gold mining tax.
- Abolition of so-called lease-payments.
- Changes to the system of capital allowances.
- Discretion being given to the Finance Minister to end ring fencing which prohibits capital spending on a new mine being offset against an existing mine's taxable income.

Mr Marais says the suggestions have to be approved by a cabinet committee before being included in the budget next March. If the proposals are phased in over six years, the gold mining industry's average marginal tax rate would be cut from its present 79 per cent to about 61 per cent, he says.

The exchequer would be part compensated by greater gold output and a greater gold-mining tax base.

Though the mining-tax proposals form a part of an overall restructuring of South Africa's tax system, they are arguably the most pressing.

Gold provided 46 per cent of its exports in 1986-87; mining as a whole contributed 13.5 per cent of gross domestic product last year and 16 per cent of the Government's tax revenue.

The upshot is that gold mining needs to be stimulated if South Africa's economy is not to suffer some further serious distortions over the next decade or so.

In 1980 the average cost of producing gold in South Africa was second-lowest in the non-Communist world. By this year galloping inflation in South Africa and cost-cutting technical innovation in other countries has left S Africa as the second-most-expensive gold-producing country. Average breakeven costs are US$255-265 an oz against US$212 in Australia and US$242 in the US.

South Africa remains the world's largest individual gold-producing nation but has suffered an absolute and relative decline. Output last year was 607 tonnes, representing only 44 per cent of the non-Communist world's total new mine production. In 1980 South Africa's 675.1-tonne output was 70 per cent of the free world's total.

Moreover, if the trend continues South African output could halve by the early years of the next century.

Prof D.G. Krige of Witwatersrand University's mining faculty estimates that 15 new mines, each processing 3m tonnes of ore a year and with life expectancies of at least 30 years, could become financially viable under the more favourable tax regime recommended by the Marais committee.

They would be on the remaining third of Witwatersrand Basin not yet exploited. The Marais report says that to establish each of the new mines would cost between R1bn and R2bn (US$400m to US$880m).

Their establishment could lift South Africa's annual gold output to 720 tonnes by the year 2000, provide jobs for up to 166,000 more people and allow gold production to continue well beyond the year 2030.

Budget cut threatens Brazilian coffee body

By John Barham in Sao Paulo

THE Brazilian Coffee Institute's budget will be squeezed very tightly next year, unless Congress has a last-minute change of mind over the federal budget for 1989.

The institute (IBC) is caught up in a fight between the Planning Ministry and Congress.

The fight is over where spending cuts should be made to eliminate the Government's fiscal deficit next year.

The draft budget which Congress is debating provides no government money for the institute at all.

The institute, which regulates the coffee industry, complains that it will not even be able to pay its staff their salaries for January without a Treasury allocation.

Mr Jose Maria Eymael, a Congressman spearheading the institute's appeal for money, said: "This is an indirect way of extinguishing the IBC. If the staff can't be paid, it will simply have to be closed."

He said the institute needed US$15m next year to pay its 3,400 staff.

Mr Bernardo Roma, the institute's spokesman, said he was mystified by the refusal to provide money. He said: "It just doesn't make sense. Nobody has explained this."

There is a suspicion within the institute that Congress, anxious to soften the blow of budget cuts elsewhere, wants the institute to live off its tax income.

The institute levies a 12 per cent tax on coffee exports which it uses to finance buffer stocks. The stocks are needed to keep domestic supply and demand under control.

This year, exports are forecast to reach US$2.3bn, providing the institute with a US$276m income.

Budget-trimmers may think that the institute should use part of the money to pay its way. The institute retorts that it is illegal to use the money for anything but the buffer stock.

Like all too many government agencies the institute is heavily over-manned, the result of generations of political patronage.

However, the institute's president, Mr Jorio Dauster, has succeeded in streamlining its archaic bureaucracy.

He plans to transfer up to 2,000 civil servants from the institute to the Ministry of Administration. This ministry oversees the Civil Service.

Cassava is a crop of the future

John Madeley on 'the greatest source of food energy in Africa'

IN ALL the debate about famine in Africa one seldom heard of cassava, says Mr Lawrence Stifel, director-general of the International Institute of Tropical Agriculture (IITA), which is based in Ibadan, Nigeria.

Mr Stifel calls cassava "the greatest source of food energy in Africa." However, yields of this starchy root crop are generally low and its potential is far from exploited. Indeed, until quite recently it attracted little research attention.

The institute, in the belief cassava could play a key role in feeding a hungry continent, is giving the once-neglected crop a strong push to the centre of African agriculture.

Cassava, known as "the poor man's crop," is grown chiefly on the marginal soils of small lowland farms. It is a staple food for about 200m people worldwide, including some 80m Africans. In the developing world it is surpassed only by rice, maize and sugar-cane as a source of calories.

On the African continent cassava is dried and processed into a popular food, *gari*, while its leaves make an important vegetable. It can be stored in the ground until needed, which makes it available throughout the year.

Research at the institute has led to advances. These include development of higher-yielding, more disease-resistant varieties of cassava, and techniques for easier packing and distribution of improved lines to other countries.

A COMBINATION of drought, grasshoppers and other pests has cut Africa's cassava output by about 5 per cent this year, to about 55m tonnes, says the Food Outlook of the UN's Food and Agricultural Organisation. The sharpest fall is in Nigeria. There drought has cut output by 15 per cent.

Yields of traditional types of cassava in Africa range from three tonnes to eight tonnes a hectare. However, because the root contains almost two-thirds water, the grain yield is much lower – ranging from a tonne to just under three tonnes.

The institute says new, improved varieties are yielding between six tonnes to 19 tonnes a hectare, that is two tonnes to just over six tonnes of grain, on the fields of Nigerian farmers. Six new varieties are being used by farmers and the older varieties are being gradually replaced.

In addition to breeding for higher yields, the institute's scientists have tried to ensure new varieties are more resistant to the destructive cassava mosaic virus and bacterial blight disease, and also to two deadly cassava pests – the mealybug and the green spider mite.

There has been only partial success. All six new varieties are showing resistance to the diseases, says the institute. Three of the new lines – TMS 4 (2), 1425 and TMS 91934 – "showed a good level of resistance to the green spider mite" but some of the new varieties are being attacked by the cassava mealybug.

A clear plus point for the six new lines is that their cyanide content is low. Cyanide's presence in traditional cassava varieties has posed health problems for consumers.

Demand for the new varieties is high, both from Nigerian farmers and also across the continent. Farmers in Cameroon, Gabon, Ghana, Sudan, Tanzania and more than 25 other African countries are using them.

Transportation of cassava cuttings has been slow and cumbersome. However, the institute says its latest research has resulted in a big improvement. Ministem cuttings were previously placed in polythene bags filled with soil, many of which were needed. The resulting bags were bulky and not easy to transport. A technique has been developed that does away with the need for soil.

With this latest technique, ministem cuttings are dipped in a mixture of fungicide and water. They are then put in polythene bags and stored in a shaded area. The bags are slimmer, and many more can be transported in a given space over long distances.

High temperatures and humidity inside polythene bags have promoted rapid sprouting, says the institute, and the cuttings have established well in the field eight weeks after transplanting.

Doctor S. K. Hahn, director of the institute's root-crop programme, is also optimistic that new methods of cloning plants through seeds will make for easier international distribution of improved genotypes.

Climatic changes are another factor that appear to be running in cassava's favour. The crop is rarely found in areas with less than 750mm of rainfall a year, but a cassava expert, Mr James Cock, says: "Once established, cassava, unlike other crops, has no critical period when lack of rain will cause crop failure. Consequently, cassava is extraordinarily well-suited to areas in which rainfall in uncertain."

With rains seemingly becoming more erratic in Africa, a crop that can take the erratic rain in its stride is being seen as a crop of the future.

Debt problems, and the rising demand for bread in Africa's urban areas, could also boost root crops. They have the potential to substitute for imports.

Nigeria, having spent £100m importing wheat in 1986, banned wheat imports last year to save foreign exchange.

The institute found some cassava varieties that could be used as a wheat substitute. However, when cassava flour has been used in bakeries a rather crumbly loaf has resulted that consumers did not favour.

It seems flour from the yam, a root crop, is proving more suitable for bakeries. Bread made up of 40 per cent flour from yams is now producing what the institute calls "an acceptable product."

Olympic Dam signs uranium deal with Kyushu of Japan

By Chris Sherwell in Adelaide

BRITISH PETROLEUM's Olympic Dam joint mining venture with Australia's Western Mining Corporation has signed a uranium-supply contract with a second Japanese power group, the Kyushu utility.

The contract is for 50 tonnes of uranium oxide a year over an initial four years. It is like a deal with Kansai Electric Power, Japan's second-largest.

BP says the new deal means the mine has long-term supply contracts for about 80 per cent of initial uranium output of about 1,300 tonnes a year.

The joint venture is negotiating to supply the remaining output to other Japanese and South Korean utilities. It hopes to conclude these deals next year. Contracts agreed include annual tonnages of:

- 300 tonnes for the Swedish State Power Board, to which the mine's first shipment was sent this month.
- 300 tonnes for the UK's Central Electricity Generating Board.
- 250 tonnes for Korea Electric Power Corporation.

Ruled out as clients are:

- Taiwan, because of the Australian Government's worries over its safeguards.
- The US, because it will not pay the floor price of US$32 a pound set by the Australian Government, a figure far above the present spot price.

BP has 49 per cent of the Olympic Dam mine beneath arid South Australia. The mine opened last month, 13 years after the deposit, the world's largest, was discovered.

The mine can produce 1,900 tonnes a year of uranium if demand picks up. It is also producing copper, gold and silver. Western Mining is the operator. BP arranged the project's A$750m financing.

WEEKLY METALS PRICES

All prices as supplied by Metal Bulletin (last week's prices in brackets).

ANTIMONY: European free market 99.6 per cent, $ per tonne, in warehouse, 1,950-2,050 (2,000-2,050).

BISMUTH: European free market, min. 99.99 per cent, $ per lb, tonne lots in warehouse, 6.10-6.25 (6.05-6.15).

CADMIUM: European free market, min. 99.5 per cent, $ per lb, in warehouse, ingots 7.00-7.40 (7.00-7.35), sticks 7.00-7.40 (7.00-7.35).

COBALT: European free market, 99.5 per cent, $ per lb, in warehouse, 7.05-7.30 (7.50-7.70).

MERCURY: European free market, min. 99.99 per cent, $ per 76 lb flask, in warehouse, 310-325 (285-300).

MOLYBDENUM: European free market, drummed molybdic oxide, $ per lb Mo, in warehouse, 3.48-3.52 (3.45-3.50).

SELENIUM: European free market, min 99.5 per cent, $ per lb, in warehouse, 9.50-9.70 (8.90-9.30).

TUNGSTEN ORE: European free market, standard min. 65 per cent, $ per tonne unit (10 kg) WO, cif, 54-62 (55-63).

VANADIUM: European free market, min. 98 per cent, VO, cif, 5.80-6.10 (6.20-6.70).

URANIUM: Nuexco exchange value, $ per lb, UO, 14.15 (same).

Move to end Asahan Aluminium dispute

By John Murray Brown in Jakarta

INDONESIAN AND Japanese officials meet in Jakarta today in a bid to resolve a six-month old dispute over the Asahan Aluminium joint venture, Indonesia's largest foreign investment project outside the oil and gas sectors.

The talks are expected to focus on ways to redraft the initial deal which links metal allocation to equity involvement, with the proviso Indonesian offtake should not exceed a third of total output, now at about 190,000 tonnes.

The dispute came to a head in July when Indonesia, demanding an improved share, suspended aluminium shipments from this north Sumatra smelter, a move Japanese trade officials called a "breach of normal commercial practice."

The action sent shockwaves through the foreign business community at a time Indonesia is trying to raise the level of investment, to counter the fall in oil earnings.

The dispute was muddied further by revelations that Mr Rauf Suhud, chairman of The Asahan Development Authority, the Indonesian government body in charge of this Y411bn project, received approval for a US$28m private investment in an aluminium casting house, requiring 70,000 tonnes of metal.

Mr Suhud, associated with the project since its inception in the mid-1970s, is understood to be taking no part in this week's talks, which are being handled from the Indonesian side by State Secretary Mr Moerdiono.

Traders in Jakarta expect an interim deal to be patched together, so reducing the stockpile at Asahan while the talks continue. Two shipments amounting to 22,000 tonnes have been released since the dispute started. Another shipment is being loaded.

Aluminium output cost rise may be temporary

By Our Mining Correspondent

THE ALUMININIUM industry's production costs jumped by nearly 16 per cent in the past two years, apparently reversing the annual trend between 1982-86, says a report by Anthony Bird Associates, a consultancy.

However, the report suggests that much of the rise may be temporary. When metal prices were low, many smelters signed aluminium price-related contracts for alumina and electricity.

Bird says: "In bad times this keeps costs down. But when metal prices rise, these contracts can become very burdensome. In mid-1988 metal prices reached outrageous levels and some smelters found that their costs were greatly inflated as a result."

The weighted average cost of producing primary aluminium in the non-Communist world in mid-1988 was 52.9 cents a lb, Bird suggests. This compares with 47.3 cents last year and only 45.8 cents in 1986.

The report calculates that, if metal prices stood at a more normal 75 cents a lb, average operating costs would be about 48.8 cents. At a recession-level price of 50 cents a lb, average production costs would sink to 45.2 cents a lb.

Many individual smelters have suffered a much steeper rise in costs than the average because of sharply rising alumina prices.

Mr Tony Bird, the author, says: "The Norwegian smelters have been especially hard-hit. Their position on the industry's cost curve has worsened dramatically in the last six years."

But, among main primary producers, in mid-1988 the US stayed the country with highest costs, 60 cents a lb. Venezuela had the lowest, 38 cents.

Aluminium Production Costs. Anthony Bird Associates, 193 Richmond Road, Kingston upon Thames, Surrey KT2 5DD. £4,200.

WORLD COMMODITIES PRICES

LONDON MARKETS

ZINC prices continued their retreat from recent record highs while other base metals regained some of Monday's losses. Most of zinc's decline came in morning trading – by the afternoon selling interest was discouraged by the continuing Peruvian miners' strike. The strike, along with news that Bougainville will not resume production in Papua New Guinea until safety is assured after recent acts of sabotage, continued to underpin copper prices, which closed higher. Aluminium followed copper's trend, with some Japanese buying triggering shortcovering. Lead prices moved ahead, but traders said last week's move to £398 a tonne for three-month metal appeared to have been seen as a false break-out by chartists who now expect it to settle back into the £380/£390 range. Gold and platinum prices were down.

SPOT MARKETS

Crude oil (per barrel FOB)		+ or -
Dubai	$11.55-1.65q	-0.20
Brent Blend	$14.25-4.30	-0.40
W.T.I. (1 pm est)	$15.29-5.32q	-0.28
Oil products (NWE prompt delivery per tonne CIF)		+ or -
Premium Gasoline	$175-178	-4
Gas Oil	$143-145	-1
Heavy Fuel Oil	$66-68	-2
Naphtha	$132-135	-3
Petroleum Argus Estimates		
Other		+ or -
Gold (per troy oz)♣	$427.25	-1.75
Silver (per troy oz)♣	613c	-6
Platinum (per troy oz)	$602.25	-10.75
Palladium (per troy oz)	$128.75	
Aluminium (free market)	$2475	+15
Copper (US Producer)	155½-162c	-2
Lead (US Producer)	39¾c	-1
Nickel (free market)	670c	+5
Tin (European free market)	£3997.5	-52.5
Tin (Kuala Lumpur market)	19.59r	
Tin (New York)	343.5c	
Zinc (Euro. Prod. Price)	$1500	
Zinc (US Prime Western)	72¾c	
Cattle (live weight)†	114.14p	
Sheep (dead weight)†	173.69p	
Pigs (live weight)†	82.30p	
London daily sugar (raw)	$285.8z	-4.2
London daily sugar (white)	$305z	
Tate and Lyle export price	£262	-2.5
Barley (English feed)	£112q	
Maize (US No. 3 yellow)	£127	+1
Wheat (US Dark Northern)	£110	-1.75
Rubber (spot)♥	56.00p	-1.50
Rubber (Jan)♥	61.25p	-1.25
Rubber (Feb)♥	62.25p	-1.25
Rubber (KL RSS No 1 Jan)	261.5m	+1.0
Coconut oil (Philippines)§	$570z	
Palm Oil (Malaysian)§	$400	-5
Copra (Philippines)§	$380	
Soyabeans (US)	$176	
Cotton "A" index	60.65c	+0.20
Wooltops (64s Super)	600p	

£ a tonne unless otherwise stated. p-pence/kg. c-cents/lb. r-ringgit/kg. z-Dec/Jan. w-Nov/Dec. v-Jan/Mar. u-Mar. q-Jan. †Meat Commission average fatstock prices. * change from a week ago. ♥London physical market. §CIF Rotterdam. ♣ Bullion market close. m-Malaysian cents/kg.

COCOA £/tonne

	Close	Previous	High/Low	
Dec	840	845	854	839
Mar	860	864	875	855
May	859	864	874	851
Jul	860	866	873	859
Sep	860	868	871	855
Dec	882	888	896	880
Mar	891	896	897	885

Turnover: 4524 (2290) lots of 10 tonnes
ICCO indicator prices (SDRs per tonne). Daily price for Dec 5: 1115.12 (1100.71) :10 day average for Dec 6: 1119.97 (1121.44) .

COFFEE £/tonne

	Close	Previous	High/Low	
Jan	1100	1105	1110	1098
Mar	1094	1099	1110	1090
May	1080	1085	1099	1078
Jly	1078	1090	1092	1075
Sep	1078	1084	1090	1077
Nov	1080	1084	1085	

Turnover:3773 (2507) lots of 5 tonnes
ICO indicator prices (US cents per pound) for Dec 5 : Comp. daily 116.73 (116.10): . 15 day average 114.89 (114.73).

SUGAR ($ per tonne)

Raw	Close	Previous	High/Low	
Mar	251.60	257.00	257.60	251.00
May	245.80	250.20	250.00	245.60
Aug	237.60	241.40	241.00	239.00
Oct	232.20	236.40	236.00	232.00
Dec	231.00		228.00	
White	**Close**	**Previous**	**High/Low**	
Mar	285.60	290.50	291.00	285.50
May	281.00	286.00	286.00	285.00-
Aug	282.00	287.00	285.00	
Oct	277.00	280.50		

Turnover: Raw 3060 (1630) lots of 50 tonnes. White 986 (772).
Paris- White (FFr per tonne): Mar 1710, May 1690, Aug 1665, Oct 1630, Dec 1630, Mar 1630

LONDON METAL EXCHANGE TRADED OPTIONS

Aluminium (99.7%)	Calls		Puts	
Strike price $ tonne	Jan	Mar	Jan	Mar
2300	165	188	32	115
2400	102	122	67	166
2500	57	86	121	228
Copper (Grade A)	**Calls**		**Puts**	
3000	363	281	51	242
3200	230	198	116	355
3400	133	137	217	486

COTTON

Liverpool- Spot and shipment sales for the week ended December 2 came to 886 tonnes against 1,492 tonnes in the previous week. Sales came through steadily with interest mainly in Turkish and Soviet qualities.

JUTE

December/January 1989 c and f Dundee BTC $475, BWC $485, BTD $425, BWD $435; c and f Antwerp BTC $455,BWC $445,BWD $400, BTD $ 410.

LONDON METAL EXCHANGE (Prices supplied by Amalgamated Metal Trading)

	Close	Previous	High/Low	AM Official	Kerb close	Open interest
Aluminium, 99.7% purity ($ per tonne)						Ring turnover 11,775 tonne
Cash	2460-70	2415-25		2475-80		
3 months	2380-5	2330-5	2395/2375	2385-90	2385-90	22,269 lots
Aluminium, 99.5% purity (£ per tonne)						Ring turnover 9,675 tonne
Cash	1275-80	1245-55	1275	1275-6		
Dec. 21	1260-5	1230-5		1260-2		9,803 lots
Copper, Grade A (£ per tonne)						Ring turnover 28,875 tonne
Cash	1910-20	1890-5	1920/1918	1920-1		
3 months	1661-2	1631-2	1667/1652	1660-1	1656-7	68,880 lots
Silver (US cents/fine ounce)						Ring turnover 0 ozs
Cash	610-1	608-11		611-4		
3 months	624-6	621-4		625-8		461 lots
Lead (£ per tonne)						Ring turnover 9,750 tonne
Cash	398-9	390-1	398/395	395-6		
3 months	390-0.5	382-3	391/388	389-9.5	388-9	11,570 lots
Nickel ($ per tonne)						Ring turnover 684 tonne
Cash	14700-900	14700-800	15000/14800	14800-5000		
3 months	13400-50	13350-400	13500/13400	13450-500	13450-500	6,474 lots
Zinc, Special High Grade ($ per tonne)						Ring turnover 175 tonne
Cash	1580-5	1620-30	1590	1589-90		
3 months	1555-60	1580-5	1560	1555-65	1580-5	1,596 lots
Zinc ($ per tonne)						Ring turnover 9,400 tonne
Cash	1585-95	1620-30	1595/1585	1588-90		
3 months	1530-2	1535-40	1542/1512	1525-7	1527-30	11,823 lots

POTATOES £/tonne

	Close	Previous	High/Low	
Feb	65.0	65.0		
Apr	96.2	95.9	96.9	95.6
May	112.0	111.5	111.5	

Turnover 67 (23) lots of 40 tonnes.

SOYABEAN MEAL £/tonne

	Close	Previous	High/Low
Dec	155.00	157.00	155.00
Feb	160.50	163.00	160.50
Apr	160.50	162.00	160.50

Turnover 32 (70) lots of 20 tonnes.

FREIGHT FUTURES $10/index point

	Close	Previous	High/Low	
Dec	1480	1483	1486	1480
Jan	1503	1510	1505	1500
Apr	1543	1550	1543	1540
Jul	1340	1345	1342	1340
BFI	1487	1468		

Turnover 129 (227)

GRAINS £/tonne

Wheat	Close	Previous	High/Low	
Jan	109.65	109.40	109.85	109.65
Mar	113.40	113.00	113.65	113.30
May	116.70	116.30	116.70	116.40
Jun	118.40	117.90	118.60	118.00
Nov	104.40	104.30	104.40	104.30
Barley	**Close**	**Previous**	**High/Low**	
Jan	106.95	105.75	107.00	106.50
Mar	110.25	109.00	110.25	109.85
May	112.00	110.85	112.00	111.60
Sep	99.15		99.15	99.15

Turnover: Wheat 190 (102) , Barley 92 (104) .
Turnover lots of 100 tonnes.

LONDON BULLION MARKET

Gold (fine oz)	$ price	£ equivalent
Close	427-427½	228¾-229¼
Opening	428½-429	229¼-229¾
Morning fix	429.00	229.694
Afternoon fix	427.75	228.988
Day's high	429-429½	
Day's low	426¾-427¼	

Coins	$ price	£ equivalent
Mapleleaf	440-445	235-238
Britannia	440-445	235-238
US Eagle	440-445	235-238
Angel	439-444	234½-237
Krugerrand	426-429	228-230
New Sov.	100½-101½	53¾-54¼
Old Sov.	100½-101½	53¾-54¼
Noble Plat	618.10-625.75	330.70-334.80

Silver fix	p/fine oz	US cts equiv
Spot	329.25	615.40
3 months	339.80	629.40
6 months	350.75	644.00
12 months	371.65	672.80

CRUDE OIL $/barrel

	Close	Previous	High/Low	
Jan	14.10	14.39	14.20	14.03
Feb	13.90	14.20	14.02	13.87
IPE Index	14.31	14.36		

Turnover: 2403 (2503)

GAS OIL $/tonne

	Close	Previous	High/Low	
Dec	141.50	143.50	144.00	141.50
Jan	138.25	139.50	139.00	137.50
Feb	134.75	137.00	136.25	134.00
Mar	130.75	133.50	132.00	130.00
Apr	128.50	131.00	129.50	128.50
May	126.00	128.00	127.50	126.00
Jun	124.25	127.25	127.00	124.25
Jul	124.25		124.25	

Turnover 6017 (5180) lots of 100 tonnes

US MARKETS

IN THE PRECIOUS metals, prices drifted lower as a sudden burst of strength was seen in the dollar, reports Drexel Burnham Lambert. Copper futures were slightly higher despite rumors of some copper miners returning back to work. In the softs, sugar prices fell 26 in March with commission houses and local traders as the days best sellers. Trade groups provided support. Cocoa futures were also lower due mostly to weakness in London and sterling. Arbitrage buying lifted coffee prices by 53 in March. The grain markets had a reversal from the previous session. Prices advanced on short-covering and technical buying. The trade remains thin with no export business to report. A late rally in the soyabeans was caused by a major trade house covering. January soyabeans closed up 15¼ cents. Cotton futures were down almost 100 points as commission houses and trade groups were active. In the meats, pork belly futures were down 200 in February as the days most active market. Record pace of belly storage is still a factor. Live hog prices fell 55 as commercial and commission houses were mixed. Local long liquidation and profit-taking weakened the market. Cattle futures were quiet.

New York

GOLD 100 troy oz.; $/troy oz.

	Close	Previous	High/Low	
Dec	427.5	429.3	429.5	425.7
Jan	430.3	432.0	0	0
Feb	432.6	434.2	434.3	430.8
Apr	438.2	439.8	439.8	436.5
Jun	443.9	446.5	445.5	442.0
Aug	449.8	451.4	450.5	450.5
Oct	455.7	457.4	0	0
Dec	461.7	463.4	463.0	459.8
Feb	432.6	434.2	434.3	430.8

PLATINUM 50 troy oz; $/troy oz.

	Close	Previous	High/Low	
Jan	611.8	612.1	613.0	603.0
Apr	602.8	600.1	603.0	595.0
Jul	601.8	597.1	600.0	593.0
Oct	601.8	595.1	602.0	591.0
Jan	603.3	596.6	0	0

SILVER 5,000 troy oz; cents/troy oz.

	Close	Previous	High/Low	
Dec	616.1	618.3	618.5	609.5
Jan	620.6	621.1	616.0	616.0
Feb	625.3	625.8	0	0
Mar	630.5	631.0	631.0	623.0
May	640.9	641.5	642.0	633.5
Jul	651.4	652.0	650.0	644.0
Sep	661.5	662.2	0	0
Dec	677.0	677.9	675.0	672.0
Jan	681.7	682.6	0	0
Mar	693.5	694.4	0	0

COPPER 25,000 lbs; cents/lbs

	Close	Previous	High/Low	
Dec	151.25	150.80	153.25	150.00
Jan	144.80	144.30	146.00	145.50
Feb	139.20	138.60	0	0
Mar	133.60	132.90	135.45	131.80
May	126.00	124.70	127.00	124.70
Jul	121.90	120.70	121.90	120.50
Sep	119.00	118.00	118.50	118.50
Dec	116.20	115.30	115.50	115.50

CRUDE OIL (Light) 42,000 US galls $/barrel

	Latest	Previous	High/Low	
Jan	15.37	15.34	15.49	15.26
Feb	15.04	15.01	15.18	14.93
Mar	14.92	14.94	15.07	14.83
Apr	14.80	14.90	14.99	14.80
May	14.78	14.88	14.96	14.78
Jul	14.78	14.86	14.90	14.78
Aug	14.77	14.85	14.85	14.77
Sep	14.76	14.84	14.93	14.76
Oct	14.86	14.84	0	0

HEATING OIL 42,000 US galls, cents/US galls

	Latest	Previous	High/Low	
Jan	4830	4836	4865	4780
Feb	4740	4741	4770	4695
Apr	4300	4295	4315	4280
May	4180	4170	4190	4150
Jun	4119	4100	4150	4100
Jul	4100	4065	4150	4100
Aug	4167	4135	4167	4166

COCOA 10 tonnes;$/tonnes

	Close	Previous	High/Low	
Dec	1417	1440	1450	1413
Mar	1460	1485	1495	1457
May	1464	1486	1492	1463
Jul	1472	1490	1496	1465
Sep	1468	1498	1495	1495
Dec	1480	1510	1508	1480
Mar	1501	1531	1529	1500
May	1515	1546	0	0

COFFEE "C" 37,500lbs; cents/lbs

	Close	Previous	High/Low	
Dec	125.25	125.40	125.50	125.00
Mar	124.09	123.56	124.20	123.30
May	122.77	122.20	122.90	122.10
Jul	121.69	120.85	121.90	121.25
Sep	120.75	120.25	121.00	121.00
Dec	120.63	119.73	0	0
Mar	120.00	119.10	0	0
May	115.66	118.10	0	0

SUGAR WORLD "11" 112,000 lbs; cents/lbs

	Close	Previous	High/Low	
Jan	9.50	10.81	11.10	11.10
Mar	11.17	11.43	11.39	11.13
May	10.92	11.06	11.05	10.88
Jul	10.58	10.76	10.76	10.58
Oct	10.30	10.48	10.49	10.30
Jan	9.45	9.46	0	0
Mar	10.12	10.23	10.21	10.13
May	10.05	0	10.45	10.45

COTTON 50,000; cents/lbs

	Close	Previous	High/Low	
Dec	58.75	59.35	59.20	58.40
Mar	56.97	57.96	57.60	56.90
May	57.03	58.07	57.60	57.01
Jul	57.25	58.35	57.75	57.25
Oct	56.75	57.82	57.30	56.80
Dec	56.75	57.82	57.10	56.80

ORANGE JUICE 15,000 lbs; cents/lbs

	Close	Previous	High/Low	
Jan	165.15	163.95	165.30	163.85
Mar	163.60	162.70	163.90	162.50
May	164.10	163.20	164.50	163.30
Jul	164.70	164.00	164.75	164.25
Sep	163.15	163.10	163.50	163.05
Nov	161.40	161.35	0	0
Jan	157.50	157.50	0	0
Mar	157.50	157.50	0	0
May	157.50	157.50	0	0

INDICES

REUTERS (Base: September 18 1931 = 100)

Dec 5	Dec 2	mnth ago	yr ago
1881.2	1878.6	1884.6	1695.0

DOW JONES (Base: Dec. 31 1974 = 100)

Spot	135.45	136.43	137.09	129.47
Futures	139.89	139.53	139.62	132.15

Chicago

SOYABEANS 5,000 bu min; cents/60lb bushel

	Close	Previous	High/Low	
Jan	773/2	758/6	775/0	753/0
Mar	784/6	769/2	787/0	766/0
May	790/6	774/4	791/4	771/0
Jul	789/4	773/0	791/0	770/4
Aug	779/0	763/4	779/0	759/4
Sep	725/4	711/0	728/0	709/4
Nov	693/0	678/0	695/0	677/0
Jan	700/0	685/0	701/0	685/0

SOYABEAN OIL 60,000 lbs; cents/lb

	Close	Previous	High/Low	
Dec	22.83	22.50	22.83	22.32
Jan	22.95	22.64	22.98	22.50
Mar	23.45	23.17	23.49	23.01
May	23.95	23.63	24.00	23.52
Jul	24.35	24.05	24.40	24.05
Aug	24.37	24.12	24.50	24.15
Sep	24.35	24.15	24.50	24.20
Oct	24.35	24.15	24.60	24.35

SOYABEAN MEAL 100 tons; $/ton

	Close	Previous	High/Low	
Dec	248.2	241.9	249.0	240.2
Jan	249.5	243.3	251.0	241.9
Mar	249.7	243.4	250.5	242.0
May	246.5	240.7	247.0	239.0
Jul	240.7	230.0	241.0	235.0
Aug	231.0	226.0	235.0	229.0
Sep	223.0	218.5	223.0	218.0
Oct	211.5	206.0	212.0	207.0

MAIZE 5,000 bu min; cents/56lb bushel

	Close	Previous	High/Low	
Dec	258/0	252/4	258/2	251/2
Mar	269/4	265/0	270/0	263/4
May	274/2	269/6	274/4	268/4
Jul	276/2	272/6	276/4	271/2
Sep	261/0	258/4	262/0	258/0
Dec	257/4	253/2	258/6	252/6
Mar	263/2	258/4	263/6	259/0

WHEAT 5,000 bu min; cents/60lb-bushel

	Close	Previous	High/Low	
Dec	420/0	413/6	422/0	413/0
Mar	422/2	413/4	423/0	412/4
May	405/2	398/4	406/0	398/4
Jul	378/6	372/6	379/4	372/0
Sep	382/0	377/4	382/0	378/4
Dec	392/0	388/0	392/0	387/4

LIVE CATTLE 40,000 lbs; cents/lbs

	Close	Previous	High/Low	
Dec	71.37	71.40	71.97	71.20
Feb	71.27	71.35	71.77	71.07
Apr	73.17	73.17	73.47	72.90
Jun	71.75	71.77	72.05	71.60
Aug	69.77	69.75	70.00	69.50
Sep	69.20	69.20	0	0
Oct	68.90	68.77	69.15	68.80

LIVE HOGS 30,000 lb; cents/lbs.

	Close	Previous	High/Low	
Dec	40.62	40.77	41.10	40.52
Feb	43.92	44.47	44.77	43.90
Apr	42.90	43.42	43.67	42.85
Jun	47.55	47.72	47.97	47.50
Jul	47.85	47.80	48.05	47.65
Aug	47.20	47.25	47.50	47.10
Oct	44.30	44.55	44.82	44.30

PORK BELLIES 38,000 lbs; cents/lb

	Close	Previous	High/Low	
Feb	43.57	45.57	45.80	43.57
Mar	44.20	46.12	46.35	44.17
May	46.10	47.80	47.95	45.80
Jul	47.10	48.87	49.10	47.10
Aug	46.05	47.37	47.75	46.02
Feb	48.00	46.00	48.00	0

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LONDON STOCK EXCHANGE

Nervous trading session for equities

AN ATTEMPT by the London market to extend its response to Wall Street's overnight advance was checked yesterday by dramatic developments inside the UK securities industry. The announcement that Morgan Grenfell, one of the new-style securities houses set up to face the post Big Bang trading era, had become the first major trading house to accept defeat in those same markets, dealt a further blow to confidence in the Square Mile of the City of London.

Equities, which had opened higher, lost momentum as the market anticipated a statement from Morgan. The announcement that Morgan was withdrawing from making markets in UK equities, Government bonds and options, with a loss of 450 City jobs, took the heart out of equity traders and although share prices moved forward for a time, on relief that the bad news was out, prices soon topped off when Wall Street made a sluggish start to the new session.

Account Dealing Dates			
*First Dealings:	Nov 28	Dec 12	Dec 28
Option Declarations:	Dec 8	Dec 22	Jan 12
Last Dealings:	Dec 9	Dec 23	Jan 13
Account Day:	Dec 19	Jan 9	Jan 23

*New time dealings may take place from 8.00 am two business days earlier.

The close saw the FT-SE Index a net 5.8 points up at 1767.4, against the day's best of 1771.1. Seaq volume, a preliminary total which takes in both customer and intra market business, slipped to 466.4m from Monday's 645.4m, which was boosted by heavy first-time dealings in British Steel.

Equity turnover (see chart below) has fluctuated in response to trend in the FT-SE 100 Index over the past two months.

The stock market had been fearful that a major firm might abandon making markets in London, and Morgan's announcement that it had lost £18m in the first eleven months of this year unsettled the City. With 32 firms still trying to make profits out of equity trading, and 24 in Government bonds, trading pressures will not be eased much by Morgan Grenfell's departure. Not all views are negative, however. Phillips & Drew, the major London securities house, is about to publish a review of the UK merchant banks which recommends the Warburg group.

There were indications that yesterday's focus on the developments inside the London market may have masked more optimistic views on the overall outlook. Although London analysts continue to take a cautious view of prospects on the US markets, some believe that Wall Street has already fully discounted an increase in Federal Discount Rate, and even that the US interest rate cycle may have peaked. On this basis, one UK-based international house is predicting a rise in the Dow Industrial Average to the 2300-2400 area.

There was ready support for some major transatlantic stocks. Consolidated Gold Fields attracted a US buyer as the market pondered the prospects for a renewed bid from Minorco, if the Monopolies Commission report proves favourable.

FINANCIAL TIMES STOCK INDICES

	Dec. 6	Dec. 5	Dec. 2	Dec. 1	Nov. 30	Year Ago	1988 High	1988 Low	Since Compilation High	Since Compilation Low
Government Secs	87.22	86.94	86.90	86.97	87.03	89.08	91.43 (18/4)	86.26 (12/9)	127.4 (9/1/35)	49.18 (3/1/75)
Fixed Interest	96.51	96.49	97.00	97.10	97.19	98.99	98.67 (25/5)	94.14 (8/1)	105.4 (28/11/47)	50.53 (3/1/75)
Ordinary	1444.8	1439.0	1439.7	1450.2	1458.0	1294.9	1514.7 (8/8)	1349.0 (8/2)	1926.2 (16/7/87)	49.4 (26/6/40)
Gold Mines	180.6	180.7	178.7	179.0	178.4	317.3	312.5 (7/1)	162.7 (22/9)	734.7 (15/2/83)	43.5 (26/10/71)
Ord. Dl. Yield	5.01	5.02	5.01	4.97	4.89	4.81				
Earning Yld %(full)	12.69	12.71	12.69	12.59	12.30	11.89				
P/E Ratio(Net)(*)	9.52	9.50	9.52	9.59	9.84	10.28				
SEAQ Bargains(5pm)	21,099	24,971	20,845	20,702	21,642	23,382				
Equity Turnover(£m)†	-	678.74	1023.53	1018.26	1008.29	1239.91				
Equity Bargains†	-	25,690	21,544	20,839	21,534	25,024				
Shares Traded (ml)†	-	548.5	444.6	411.5	406.3	-				

Ordinary Share Index, Hourly changes

Opening	10 a.m.	11 a.m.	12 p.m.	1 p.m.	2 p.m.	3 p.m.	4 p.m.
1442.3	1439.3	1444.2	1446.5	1447.0	1446.4	1446.0	1444.4

DAY'S HIGH 1447.4 DAY'S LOW 1437.7

Basis 100 Govt. Secs 15/10/26, Fixed Int. 1928, Ordinary 1/7/35, Gold Mines 12/9/55, SE Activity 1974. ☆Nil 9.47 †Excluding intra-market business.

S.E. ACTIVITY

Indices	Dec. 5	Dec. 2
Gilt Edged Bargains	88.5	89.8
Equity Bargains	166.5	139.6
Equity Value	1974.2	2068.8
5-Day average		
Gilt Edged Bargains	96.2	101.5
Equity Bargains	145.4	143.8
Equity Value	1965.0	1913.9

● London Report and latest Share Index: Tel. 0898 123001

Profits boost GEC

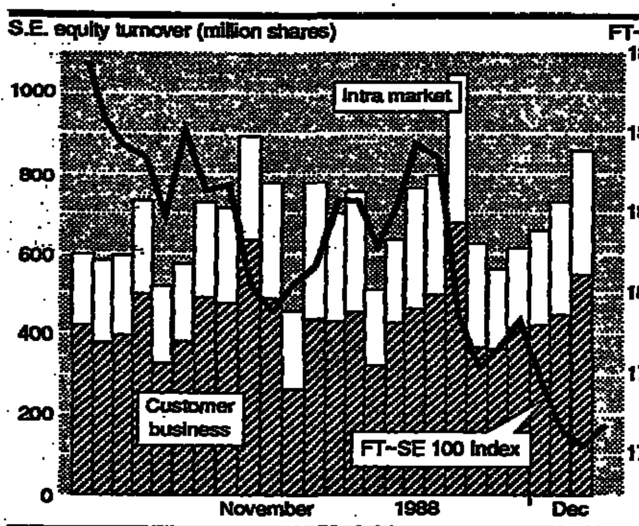
GEC bolstered its stock in the joint bid with West Germany's Siemens to take over Plessey by announcing interim results at the top end of expectations.

GEC's pre-tax profits were up around 10 per cent at £313m, compared with last time's £284m, and the interim dividend was a very satisfactory 20 per cent or so higher. The company's shares touched 181p at best, before easing off the top to close a net 3 higher at 178p. Turnover of 12m shares was well above the recent average.

Kleinwort Benson's Chris Tucker described the figures as "excellent" and forecasts £780m for the full year year.

Plessey, where GEC/Plessey are bidding 225p a share, outperformed GEC in the market, racing up to 218p before ending the session 6 firmer at 216p. Chase Manhattan Securities were big buyers of the stock, dealers said.

Mr Brian Newman, electronics analyst at Chase, explained the US house's heavy buying, commenting: "We think Plessey should trade above, rather than below, the 225p GEC/Siemens bid price, given its high break-up value and the possibility of other, more acceptable bidders."



Aurora raid

An unexpected market raid saw 12m Aurora shares change hands for cash at 146p, the latest move in the takeover struggle for the Sheffield engineering and steel company.

The raiders moved in bright and early following an announcement from the predator, Australian National Industries, Australia's biggest engineering group, that it held 48.7 per cent of the Aurora stock and was extending its £138m bid for the company until December 19. Later ANI said it had bought a further tranche of more than 8.5m shares during the day's trading, and had raised its holding to 58 per cent.

ANI is offering 148.5p a share. Aurora shares, which have been trading below the offer price, rose 2 to 148p.

Aurora is resisting the bid and the company again advised shareholders to reject ANI's offer which it regards as inadequate. Shareholders were urged not to sell their shares in the market. Two big institutional shareholders, M&G and Investors in Industry (3i), which together hold nearly 23 per cent, are backing the Aurora board.

International stocks had one of their less active days, recording few features. Dealers said there was little to look forward to in the next few weeks in the way of economic data. Fisons rose 3 to 235p on the back of a County NatWest WoodMac buy recommendation. The County analysts decided to buck the Robert Fleming trend by saying that next year's US patent expiry of Fisons's drug Intal will have less impact than first thought. "The shares are now close to their relative low and at these levels should be bought," said the County team.

Hanson saw mild interest - 3.4m shares traded in good two-way business - ahead of today's full year results. The shares shaded to 152p as dealers speculated that the coincidence of the company's 25th trading anniversary with the results might inspire a special dividend for shareholders. Kleinwort Benson is forecasting profits of £855m, with the range at £850m to £870m.

British Steel closed at 61p, down 1¼ after turnover of 61m shares. Dealers reported institutional demand at lower levels, but rated the performance disappointing.

Ultramar shares raced ahead late in the session, closing 14 up at 258p, after 260p, on news that two Montreal-based groups, Noverco Inc and Unigesco Inc, together with Banque Paribas, acting together had built up a 4.3 per cent (14.8m shares) stake in Ultramar. The UK independent oil group, where Sir Ron Brierley has a near 14 per-cent stake, have recently been the subject of intense speculation that a stake-building operation has been taking place.

Mr David Elton, a Director of Ultramar took a relaxed view of the news yesterday "We welcome all new shareholders" he said.

The Morgan Grenfell withdrawal from marketmaking was perceived as bullish for the shares, which advanced strongly to touch 316p before settling a net 11 higher at 310p. "Apart from the human tragedy of all those people looking for new jobs, this has to be good for MG. It is now a much more attractive bid proposition," was the comment from one analyst.

Bond corporation, which controls a stake of 9 per cent, has been trying to sell its holding for some weeks. A further 20.7 per cent stake in Morgan is held by insurance broker Willis Faber, while Prudential has a holding of around 6 per cent and Deutsche Bank around 5 per cent. The news boosted Dewey Warren, where Bond has control, some 7 to 124p and Willis Faber 3 to 222p.

Life assurance issues made further good progress, with Legal & General the outstanding performer, finally 7 higher at 288p after a "buy" recommendation from James Capel, and a "switch from Abbey Life" note issued by County NatWest. But Abbey were sustained by a recent "buy" recommendation from BZW and closed 6½ firmer at 288½p.

The positive Warburg presentations in Scotland triggered more big buying of composites where Commercial Union were 7 higher at 324p, Royals 8½ up at 371p and General Accident 11½ firmer at 834p.

Brewery issues continued their uninspired form ahead of today's results from Bass. Bass shares were lightly traded and eased 4 to 775p, with dealers remaining cautious. Allied Lyons rose 3 to 447p amid early talk, later silenced, that Alan Bond might have sold his Lonrho stake.

Whitbread added 3 to 288p in bitty turnover. Scottish & Newcastle edged forward a penny to 397p - some sizeable lumps of stock, including one trade of 1m at 396p, were seen to indicate the presence of sellers who had decided not to wait for the outcome of the Monopolies & Mergers Commission enquiry into the bid by Elders IXL.

Raine Industries staged a sustained rally and closed 4 harder at 78p with dealers suggesting the shares had been held back during the battle with Tarmac for control of Ruberoid and had reached a level where they were "fundamentally cheap".

Next took another beating as the shares dropped 7 to 125p in response to a large trade of 1.4m shares. Sold at 126p at lunchtime, it is thought that the securities house which took on the line of stock had great difficulty in finding anyone to buy it - the result was that Next shares fell sharply to close at their low for the day.

Ratners slipped 3 to 176p amid talk of an imminent downgrading from a UK broking house.

Confirmation that Mr Asher Edelman, the US arbitrageur, has a near 5 per cent stake in Storehouse failed to budge the shares, which ended steady at 197p. Etam fell 2 to 160p after County NatWest WoodMac analyst Joan D'Olier reduced her forecast for the fashionwear group from £20m to £17.7m.

A combination of "switching" and arbitrage activity left Racal Telecom a fraction harder at 159p, after turnover of 2.5m which included a single trade of 1.5m at 158p. Racal Electronic, meanwhile touched 260p, before closing a net 2½ up at 258p on turnover of 5.7m.

Ferranti, up 2½ at 93½p, responded to keen support which included a buyer of 1.5m at 94p. The acquisition of Computer Consoles by STC for some $170m was greeted by traders who took the view that the acquisition diminishes the possibility of the company launching a "White Knight" move on Plessey. STC rose 5 to 265p.

A revival of talk that Cables de Lyon may be about to launch an offer lifted BICC 4 to 382p. Northern Engineering Industries staged a spirited advance with the market suggesting that a bid of perhaps 140p to 150p a share from 4.7 per cent holder Rolls-Royce could be imminent; talks between the two groups have been in progress since Rolls-Royce announced its holding around a month ago. Nearly trebled profits saw Harland Simon jump 8 to 373p.

Argyll, which reported increased half year pre-tax profits, led the Food sector higher. It rose 5½ to 166½p on strong volume of 8.5m. The figures were in line with City expectations, but analysts still reacted favourably because of prospects for long-term growth.

There were large buyers in the market for Asda, up ½ at 142p on 5.1m shares traded, and Tesco, up 5 at 134p on volume of 3.5m. One marketmaker said both continued to represent potential bargains.

Northern Foods put on 2 to 276p after a reporting a rise in half year profits very much in line with expectations.

Geest closed unchanged at 236p after the Kuwait Investment Office announced that it had reduced its holding in the company from 10 per cent to 4.77 per cent. Geest has fallen heavily in the last month and one trader said the KIO must have had difficulty selling the shares, which are believed to have been sold gradually to several institutions.

Leisure issues featured a good recovery by Ladbroke, up 8½ to 429½p in turnover of 3.3m shares. County NatWest WoodMac rated the shares a strong buy, arguing for a change of sentiment on fundamentals. Also helpful was news of Ladbroke's $17m US acquisition of Meadows Race-Track at Pittsburgh.

Brent Walker announced the purchase of a major London freehold site and its shares rose 3 to 317p. Further acquisition news is expected soon.

Jaguar was down 7 to 269p following profit-taking, the non-appearance of an expected big buyer and adverse comments by analysts.

Trafalgar House failed to impress the market with a 40 per cent increase in pre-tax profits for the year to £229m. The shares put on 3½ in early dealings to 310p, but then spiralled down to finish the day at 300½p, a fall of 6. Traders had been looking for news that Trafalgar House is preparing to sell its oil and gas interests.

Textiles remained lacklustre. Atkins reported sharply reduced interim profits and fell 10 to 368p. One trader said Charterhall, which has a 9 per cent stake in the company, may be keen in acquiring more at current prices.

Rosehaugh dropped 16 to 571p amid concern over further City job losses. It was Morgan Grenfell's decision two months ago to pull out of its allocated space in Rosehaugh's Broadgate office development which initially fuelled fears of overcapacity in the City property market. Stanhope, co-developer of Broadgate, fell 3 to 211p.

The first in a clutch of advertising agency results due this week were received with muted applause, as VPI - once known as Valin Pollen - and Yellowhammer produced figures in line with market expectations. VPI rose 2 to 137p on the news of its 240 per cent jump in profits to £14.1m, while Yellowhammer eased a penny to 160p after reporting interim profits up just 0.6 per cent to £911,000.

Dealings in the FT-SE 100 index again provided the chief feature light in traded options, accounting for 13,451 contracts out of a total of 58,259. British Steel, on its second day, again took the highest place in volume, on 2,987 calls and 1,741 puts, but was again up-staged, not only by the index, but also by Plessey.

Speculation that the GEC-Siemens bid for Plessey might eventually be successful brought trading of 3,699 contracts, lying in 1,682 calls and 2,017 puts.

■ Other market statistics, including FT-Actuaries Share Index and London Traded Options, Page 31

TRADING VOLUME IN MAJOR STOCKS

The following is based on trading volume for Alpha securities dealt through the SEAQ system yesterday until 5 pm.

Stock	Volume 000's	Closing Price	Day's change	Stock	Volume 000's	Closing Price	Day's change	Stock	Volume 000's	Closing Price	Day's change	Stock	Volume 000's	Closing Price	Day's change
ASDA Group	5,125	142	+½	Commercial Union	2,900	324	+7	Ladbroke	3,300	429½	+8½	Rothmans	1,075	417	+3
Abbey Life	3,500	288½	+6	Cons. Gold Fields	486	£12	+¼	Land Securities	220	578	+2	Royal Bk. of Scotland	364	351	
Allied-Lyons	2,375	464	+3	Cookson	468	261	+½	Laporte	33	381	+1	Royal Insurance	1,300	371	+8½
Amstrad	858	158		Courtaulds	498	245	+1	Legal & General	1,500	288	+8	STC	1,300	265	+5
Argyll Group	8,076	166½	+5½	Dalgety	485	297	-2	Lloyds Bank	1,600	330	-1	Saatchi & Saatchi	176	324	-2
Ass. Brit. Foods	261	394	+2½	Dixons	588	149		LASMO	538	450	-1	Sainsbury	1,658	195	+2
BAA	884	246	+1	Eng. China Clays	529	451	+1	Lonrho	3,000	363	-8	Scott & Newcastle	2,300	397	+1
BAT	2,200	422	-1	Enterprise Oil	1,400	484	+3	Lucas	494	531	-3	Sears	5,500	113	-½
BET	2,200	228	+2	FKI Babcock	368	129½	+1½	MB Group	693	245	-2	Shell Transport	865	985	+5
BICC	605	382	+4	Fisons	737	235	+3	MEPC	253	554	-1	Siebe	139	362	+4
BOC	1,600	397	-3	Gateway Corp.	1,300	153		Marks & Spencer	2,100	143½	+½	Slough Ests	45	315	
BPB Inds.	1,900	226	+1	General Accident	910	834	+11½	Maxwell Comm.	172	182		Smith & Nephew	2,300	116¼	+1½
BTR	691	284	+1	General Elec.	12,600	178	+3	Midland Bank	332	415	-1	Standard Chartd.	429	477	+3
Barclays	859	409	+1	Glaxo	1,000	£10½		Nat. West. Bank	779	531	+2	Storehouse	2,598	197	
Bass	419	775	-4	Globe Inv.	2,755	135½		Next	3,600	125	-7	Sun Alliance	787	928	+2
Beazer	1,100	167	+1½	Glynwed Int.	1,200	256	+9	Northern Foods	1,200	274		T&N	314	165	-2
Beecham	1,200	452	-1	Granada	2,350	317	+1	Pearson	196	656	-3	TSB	776	106	
Blue Arrow	1,900	89½		Grand Met.	724	447	+2	Pearl	522	407	-1	Tarmac	611	215	+1
Blue Circle	482	434	+3	GUS A	134	975	-4	P&O	231	536	-1	Tate & Lyle	147	828	-2
Boots	1,700	210		GRE	1,200	178	+2½	Pilkington	2,000	207	-1	Tesco	3,300	134	+3
British Airways	881	156		GKN	67	307	+3	Plessey	4,900	216	+6	THORN EMI	886	626	-3
Brit. Aerospace	530	444	+5	Guinness	426	324	+1	Prudential	2,500	148	+2½	Trafalgar House	4,200	300½	-6
Brit & Comm.	804	219	-1	Hammerson 'A'	324	901	+2	Racal	5,700	258	+2½	Trusthouse Forte	806	262	+1
British Gas	1,400	157½	+½	Hanson	3,400	152	-½	Rank Org.	643	688	+5	Ultramar	4,600	259	+14
British Land	365	352	+2	Harrisons & Cros.	256	652	+6	RMC	141	481		Unilever	508	441	-1
BP	2,500	245	+1½	Hawker Siddeley	273	528	+3	RHM	410	344	+2	United Biscuits	877	284½	-½
British Telecom	2,200	256	+2	Hillsdown Hldgs.	1,600	258	-½	Reckitt & Colman	92	987	+2	Utd. Newspapers	38	388	+1
Burmah Oil	730	472½	-6½	IMI	3,600	178	-1	Redland	394	402	+3	Wellcome	1,300	418	-5
Burton	1,900	172		Imp. Chem.	942	968	-2	Reed International	1,400	362	-5	Whitbread 'A'	479	288	+3
Cable & Wireless	711	364	+1	Inchcape	779	198	-5	Reuters 'B'	1,400	467	-6	Williams Hldgs.	484	239	
Cadbury Schweppes	570	342	-1	Jaguar	453	269	-7	RTZ	1,100	424	-1	Wimpey	331	245	+½
Coats Viyella	1,100	149	-1					Rolls Royce	2,160	129	+1½	Woolworth Hldgs.	1,180	241	-2

NEW HIGHS AND LOWS FOR 1988

NEW HIGHS (17). LOANS (1) N'wide 9⅝pc E. Ln 2001, BREWERS (1) Eldridge Pope 'A', ELECTRICALS (1) Ericsson (L.M.), FOODS (1) Kerr (A.G.), INDUSTRIALS (3) Electrolux, Sanders & Sidney, Sheeks & McEwan, LEISURE (1) European Leisure, TRUSTS (1) Bertrams Inv. Tst., OVERSEAS TRADERS (1) REA Hldgs., MINES (1) Derwick Mines.

NEW LOWS (64). AMERICANS (1) Chyred, CANADIANS (1) Granges Exp., BUILDINGS (4) Berkeley Grp., Heywood Williams, McCarthy & Stone, Wilson (C.), STORES (7) Aquascutum, Ashley (L.), Dewhirst (I.J.), Next, PML, Specialeyes, Wickes, ELECTRICALS (4) ITL Info. Tech., Norbain Elec., Riva Grp., Sharwood Comp., ENGINEERING (2) Habit Precision, McKechnie, FOODS (8) Global Grp., Hughes Food, Israel (J.L.), Park Food, Ptarmigan Hldgs., INDUSTRIALS (13) BBA 6.7pc Cnv. Rd. Cv. Pf., Brierley Inv., Coloroll, Elswick, Keep Trst., Kenyon Sec., Haw Comp., Pergamon AGB, Quadrant, Tamaris, URS Int., Williams Hldgs. 6½pc Cv. Pf., Wills Grp., INSURANCE (1) FAI Ins., LEISURE (1) A & M Grp. 10pc Cv. Uns. '98, NEWSPAPERS (1) Bristol News., PAPERS (7) Bruning Grp., Ferguson Ind., Flextec, Huntersprint, Osborne & Little, Peters (M.), Serif Cowells, PROPERTY (4) City Gate Ests., Shield Grp., Do. 5.84pc Net Cv. Cm. Pf., Zurich Grp., TRUSTS (6) Scot. & Merc. 'A', Aitken Hume, Autry. Inv., Guidehouse Grp., MAI, Parrish, OILS (2) Caspen Oil, Firstland Oil; OVERSEAS TRADERS (1) Utd. Plants Africa, MINES (3) Duke Grp., Kitchener, McFinley Rd. Lake, THIRD MARKET (1) Pennine Optical.

APPOINTMENTS

New chief for London International

■ Mr Anthony J. Butterworth has been appointed to the newly created post of group managing director and chief operating officer of LONDON INTERNATIONAL GROUP from April 1.

Mr Bristow, who is British, is returning to the UK after many years working for US multi-nationals, notably as corporate vice president, responsible for marketing planning worldwide of the Coca-Cola Co, based in Atlanta; president of Carnation International, based in Los Angeles, and most recently president of Chesebrough-Pond's International, based in Greenwich, Connecticut. He will join the board of London International during January.

Mr Paul Bristow, group finance director, will be leaving early in the New Year to become a partner in the MMG Patricof Buy-In Fund, a newly launched £250m fund which will be seeking acquisitions in the UK and France.

■ WINTER PARTNERS has appointed Mr Donald Sinclair as regional director of its Asia-Pacific operation. He will be based in Hong Kong, and joins from Micrognosis International, where he held a similar post based in Tokyo.

Mr Stuart Large, formerly general manager, sales and marketing, floor operations, has assumed the position of director, floor operations, ARMSTRONG WORLD INDUSTRIES and general manager, floor operations, ARMSTRONG EUROPE SERVICES. He replaces Mr Ron Petersen who has been appointed general manager, company operations, Armstrong Europe Services.

■ Mr Günter Steffens, general manager of Dresdner Bank, London, and Mr Herbert Wunderlich, managing director of Dresdner Bank Investment Management, Frankfurt, have been appointed directors of THORNTON MANAGEMENT.

■ HILTON INTERNATIONAL has appointed Mr Lionel Doom as director of engineering, based at Watford.

■ Mr Brian Guy has been appointed a director of MILLER CONSTRUCTION. He was managing director of Wiltshier Northern.

■ JOHN E. WILTSHIER GROUP has appointed Mr Mike Connolly as group finance director. He joins from AMEC. Mr Derek Myers has been appointed managing director of Wiltshier Northern. He was a divisional director with Fairclough Building Eastern.

■ SOFTBRIDGE CAPITAL MARKETS has appointed Mr Robert Wilson as managing director. He was sales director of Stratus Computer.

■ DWEK GROUP has appointed Mr Bill Foreman as a non-executive director. He is commercial director of Vickers, and a non-executive director of Chloride.

■ KIDDER, PEABODY SECURITIES has appointed Mr Viktor K. Böhler, a Swiss national, as vice president - convertible sales, London. He joins from a similar post with Cresvale.

■ VERSON HME has appointed Mr David Grundy as financial director.

■ Ms Karen McCusker has been appointed a director GRE ASSET MANAGEMENT. She was an assistant director.

■ MARLING INDUSTRIES has appointed Mr Malcolm Davidson to the board. He is managing director of Causeway Corporate Finance.

CAMPBELL DISTILLERS, a UK subsidiary of Pernod Ricard, has appointed Mr Paul Hick (*above*) marketing director responsible for the company's Scotch whisky brands worldwide. Mr Douglas Callander, previously sales director for Scotland, is now responsible for the European, African and American markets as export sales director. Mr Colin Cook, sales director for England, Wales and Northern Ireland, has now taken on responsibility for Scotland.

■ Mr Don E. Poyner, chief executive of the materials handling and storage division of Wagon Industrial Holdings and group managing director of Link 51, has become chairman of the LINK 51 GROUP.

Mr Mel Bailey has become managing director of Link 51's storage products division and Mr Tony Billington managing director of its steel division.

FT UNIT TRUST INFORMATION SERVICE

● Current Unit Trust Prices are available on FT Cityline. To obtain your free Unit Trust Code Booklet ring the FT Cityline help desk on 01-925-2128

AUTHORISED UNIT TRUSTS

London & Manchester (Tst Mgmt) Ltd (1000)H
Winslade Park, Exeter EX5 1DS 0392 282673

American	5	27.22	27.52xd	29.21	+0.27	0.9
General	5	46.71	46.91xd	49.80	+0.02	3.7
Income	5	43.82	44.11	46.83	-0.01	5.7
International	5	33.40	33.71	35.79	+0.59	1.0
Japan	5	49.47	49.77	52.83	-0.10	0.0
Tst of Inv Trusts	5	34.91	35.44	37.62	-0.18	2.1

CROSSWORD

No. 6,805 Set by DANTE

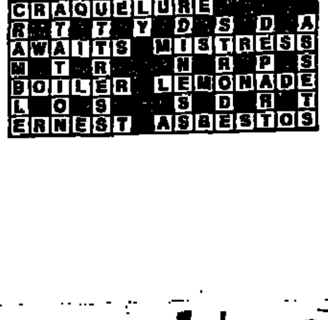
ACROSS

1 Friendly attempt to appear unimportant (6)
4 Intrude by chance or accident (8)
9 Distant meteor breaks up (6)
10 Plucky air-man of a bygone age? (8)
12 No energy? And no inclination apparently (8)
13 Stop a criminal proceeding? (6)
15 A solar-powered cycle? (4)
16 He goes ahead to walk the dog (4,6)
19 Not having a steady position as croupier, perhaps (10)
20 Advertise an electrical fitting (4)
23 The growing economy (6)
25 Plates used for eating (8)
27 Setting great store by a spot of publicity (8)
28 Fresh meat sailors swallowed (6)
29 Agency typist unpunctual – that's the pattern (8)
30 Wooden-faced beauty (6)

DOWN

1 Talk about a point raised by a nurseryman (7)
2 It cuts down the light coming from headlamps (9)
3 Draw attention to collecting box and disconcert people (6)
5 A love outwardly secure (4)
6 Kept quiet (8)
7 Unusually eager to come to terms (5)
9 From which to make the draw (7)
11 Mohammedan claims I am converted (7)
14 Think things over in bed when perplexed (7)
17 One claret may show indulgence (9)
18 Five hundred wrongly laid off – it's a bloomer (8)
19 Saucepan's ready for cooking a snipe (3-4)
21 Tell-tale governor (7)
22 The inane goddess? (6)
24 Kingdom not fancied by many (5)
26 Water rate? (4)

Solution to Puzzle No.6,804



GUIDE TO UNIT TRUST PRICING

INITIAL CHARGES
These represent the marketing, administrative and other costs which have to be paid by new purchasers. These charges are included in the price when the customer buys units.
OFFER PRICE
The price at which units may be bought.
BID PRICE
The price at which units may be sold.
CANCELLATION PRICE
The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, unit trust managers quote a much narrower spread. As a result, the bid price is often set well above the minimum permissible price which is called the cancellation price in the table. However the bid price might be moved to the cancellation price in circumstances in which there is a large excess of sellers of units over buyers.
TIME
The time shown alongside the fund manager's name is the time at which the unit trusts' daily dealing prices are normally set unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: ♥ - 0001 to 1100 hours; ♣ - 1101 to 1400 hours; ♦ - 1401 to 1700 hours; ♠ - 1701 to midnight.
HISTORIC PRICING
The letter H denotes that the managers will deal on a historic price basis. This means that investors can obtain a firm quotation at the time of dealing. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis.
FORWARD PRICING
The letter F denotes that prices are set on a forward basis so that investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper show the prices at which deals were carried out yesterday.
Other explanatory notes are contained in the last column of the FT Unit Trust Information pages.

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FT UNIT TRUST INFORMATION SERVICE

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Swiss Life Pen Tst Man Co Ltd (1000)H
99-101 London Rd, Sevenoaks 0732 450161

	Init. Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Equity Dist	5	317.6	321.7xd	340.4	-1.0	3.22
Equity Acc	5	413.4	418.7	443.1	-1.3	3.22
Fixed Int Dist	5	112.9	114.4xd	118.6	-1.3	8.27
Fixed Int Acc	5	207.9	210.9	218.5	+0.4	8.56

TSB Unit Trusts (y) (1000)F
Charlton Pl, Andover, Hants. SP10 1RE 0264 63434

	Init. Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
TSB American	6	92.94	92.67	98.58	+1.97	2.15
Do Accum	6	98.48	99.46	105.81	+2.13	2.15
TSB Brit Growth	6	52.15	52.15	55.48	-0.11	3.47
Do Accum	6	54.57	54.57	58.05	-0.11	3.47
TSB European	6	50.78	50.78	54.02	+0.12	1.08
Do Accum	6	52.16	52.16	55.49	+0.12	1.08
TSB Extra Income	6	142.89	146.12	155.45	-0.09	6.08
Do Accum	6	184.84	188.62	200.66	+0.12	6.08
TSB Smaller Cos	6	50.41	52.49	55.84	-0.70	1.49
Do Accum	6	51.31	53.42	56.83	-0.71	1.49
TSB General	6	170.96	170.96	181.87	-0.30	3.70
Do Accum	6	295.93	295.93	314.82	-0.52	3.70
TSB Premier Income	5	46.82	47.26	49.23	+0.12	9.32
Do Accum	5	71.87	72.56	75.58	+0.19	9.32
TSB Income	6	253.43	257.40xd	273.85	-0.44	5.20
Do Accum	6	433.10	437.90xd	463.85	-0.75	5.20
TSB Pacific	6	207.13	210.34	223.77	+1.41	0.32
Do Accum	6	215.35	218.69	232.65	+1.46	0.32
TSB International	6	314.60	314.60xd	334.66	+2.47	0.90
Do Accum	6	397.53	397.58xd	422.98	+3.11	0.90
TSB Nat Resources	6	54.93	58.22	61.94	+0.10	1.73
Do Accum	6	60.35	61.71	65.65	+0.10	1.73
TSB Spcl Opps	6	75.61	75.61	80.44	-0.10	2.84
Do Accum	6	86.33	86.33	91.84	-0.12	2.84

Target Trust Mngrs Ltd (1600)H
Target Hse, Gatehouse Rd, Aylesbury, Bucks.
Admin: 0296 394000 Dealing: 01-379 0860

	Init. Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
American Eagle	5	59.13	59.13xd	63.23	+0.4	3.30
Australia	5	6.804	6.804	7.280	-0.4	0.10
Commodity	5	71.73	71.73xd	77.31	-0.08	0.64
Convertible	5	138.7	138.7xd	149.7	+0.5	6.11
Equity	5	147.2	147.2	158.8	+0.4	3.28
Euro Spec Sits	5	80.10	80.10	86.04	-0.08	1.58
Financial	5	29.58	29.58	31.80	-0.52	2.14
Global Opps Inc	5	53.04	53.04xd	57.20	+0.02	0.65
Global Opps Acc	5	53.44	53.44	57.63	+0.02	0.65
Gold Income	5	43.89	43.89xd	47.14	+0.34	0.00
Gold Acc	5	80.84	80.84	86.83	+0.63	0.00

Local Authorities Mutual Invest. Tst.*
2 Fore Street, London EC2Y 5AQ 01-588 1815

	Bid Price	Offer Price	+ or -	Yield Gross
Property Nov 30	211.95		......	5.87
Equity Nov 30	695.75		......	4.18
Fxd Int Sqr Nov 30	97.60		......	10.60

* Available only to Local Authorities

MIM Ltd

	Bid Price	Offer Price	+ or -	Yield Gross
Mngd Pens (Acc)	54.3	57.9	......	0.86

Murray Johnstone UT Mngmt
Murray Exempt Funds

	Bid Price	Offer Price	+ or -	Yield Gross
Amer Expt Dec 7	36.5	37.9	+0.2	2.47
Euro Expt Dec 7	41.0	43.0	+0.2	2.66
Fixed Int Ex Dec 7	47.8	50.3xd	-1.2	10.2
Japan Expt Dec 7	56.1	58.4xd	-	0.51
Managed Ex Dec 7	37.9	39.4	-	4.84
SE Asia Expt Dec 7	33.4	35.0	-0.3	2.25
Sm Cos Expt Dec 7	41.4	43.4xd	-1.1	2.92
UK Eqty Ex Dec 7	34.0	35.7	-0.6	4.74

New Court Property Fund Managers

	Bid Price	Offer Price	+ or -	Yield Gross
NC Property	191.5	209.3	......	-

Phillips & Drew Fund Management Ltd

	Bid Price	Offer Price	+ or -	Yield Gross
PDFM Small Co's Nov 4	774.0	820.0	-41.0	4.20
Do Accum	799.0	846.0	-43.0	4.20
PDFM Int Expt Dec 1	120.0	122.1xd	......	2.66

J. Rothschild Fund Managers Ltd

	Bid Price	Offer Price	+ or -	Yield Gross
Intl Exempt	96.10	97.33	-	2.49

INSURANCES

AA Friendly Society
Investment Mngt M & G Inv Mngt Ltd

	Bid Price	Offer Price	+ or -	Yield Gross
AA Friendly Sy Nov 11	—	143.4	—	-

Abbey Life Assurance Co Ltd
80 Holdenhurst Road, Bournemouth 0202 292373

Legal & General (Unit Assur) Ltd
2 Montefiore Road, Hove, BN3 1SE 0273 724588

	Bid Price	Offer Price	+ or -	Yield Gross
British Opportunities	95.3	100.4	+0.5	-
Do. Accum	98.4	103.6	+0.4	-
Bldg. Soc. Linked	110.2	116.0	----	-
Do. Accum	125.2	131.8	----	-
Cash Initial	135.0	142.2	----	-
Do. Accum	193.5	203.7	+0.1	-
Equity Initial	412.2	433.9	+5.8	-
Do. Accum	590.6	621.7	+8.5	-
European Initial	104.3	109.8	----	-
Do. Accum	115.7	121.8	+0.1	-
Far Eastern	215.9	227.3	+0.1	-
Do. Accum	239.3	251.9	+0.1	-
Fixed Initial	256.3	269.8	+0.4	-
Do. Accum	367.3	386.7	+0.6	-

Merchant Investors Assurance Co Ltd — Contd.

	Bid Price	Offer Price	+ or -	Yield Gross
MI Fram Com & Gilt	143.9		-0.7	-
MI Fram European	119.7		-0.8	-
MI Fram Amer T'nd	82.5		-0.7	-
MI Fram Financial	92.8		-0.9	-
MI Fram Extra Inc	95.0		-0.4	-
MI Fram Smllr Cos	97.3		+1.0	-
MI GAR American	103.9		+1.0	-
MI GAR European	135.6		+0.1	-
MI GAR Far Eastern	157.1		+0.2	-
MI GAR British	137.7		+1.8	-
MI GAR Global	123.7		+0.3	-
MI GAR Special Sits	121.7		-0.3	-
MI GAR Smaller Co's	162.3		+1.1	-
MI GAR Australian	65.8		+0.7	-

OTHER UK UNIT TRUSTS

Continued on next page

FT UNIT TRUST INFORMATION SERVICE

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Norwich Union Asset Management Ltd
PO Box 124, Norwich NR1 1JS 0603 683986

	Bid Price	Offer Price	+ or -	Yield Gross
NUAM Funds				
Managed Fund	53.2	56.0	+0.4	-
Stock Market Mngd Fund	50.6	53.3	+0.4	-
Equity Fund	53.9	56.7	+0.5	-
International Fund	47.9	50.4	+0.4	-
European Fund	48.6	51.2	+0.3	-
North American Fund	41.7	43.9	+0.6	-
Pacific Fund	60.4	63.5	-0.2	-
Property Fund	68.6	72.2	-	-
Fixed Interest Fund	51.8	54.5	+0.2	-
Index linked Sec Fund	53.4	56.3	+0.1	-
Deposit Fund	55.1	58.0	-	-
NUAM Retirement Plans				
Mixed Fund	56.8	59.8	-0.2	-
UK Ordinary Share Fd	62.5	65.8	-0.2	-
International Fund	49.5	52.1	-0.1	-
Property Fund	67.3	70.8	-	-
Fixed Interest Fund	56.3	59.3	+0.1	-
Index Linked Sec Fund	54.9	57.8	+0.1	-
Deposit Fund	59.4	62.5	-	-
NUAM (MF)				
Managed Fund	743.3	782.5	+4.8	-
Equity Fund	1461.0	1537.9	+11.5	-
Property Fund	432.1	454.9	-	-
Fixed Interest Fund	386.0	406.4	+1.2	-
Deposit Fund	225.3	237.2	-	-
International Fund	125.8	132.5	+1.1	-
Index Linked Sec Fund	54.2	57.1	+0.1	-

Norwich Union Life Insurance Soc.
PO Box 149, Norwich NR1 3NG 0603 622200

	Bid Price	Offer Price	+ or -	Yield Gross
Unitised Pensions				
With Profits Fd	108.85	114.57	+0.04	-
Managed Fd	114.73	120.77	-0.31	-
UK Equity Fd	115.61	121.70	-0.48	-
International Fd	117.50	123.69	-0.40	-
European Fd	110.22	116.02	-0.61	-
North American Fd	105.34	110.89	-1.17	-
Pacific Fd	116.06	122.17	-1.01	-
Property Fd	122.34	128.78	+0.04	-
Fixed Int Fd	99.73	104.98	+0.08	-
Intl Bond Fd	101.68	107.03	-0.50	-
Bldg Soc Dep Fd	103.72	109.18	+0.10	-
Pensionvestor* & Unit-Linked Plus*				
Fixed Interest Fund	281.6	296.4	-3.3	-
Index-Linked Sec Fund	154.4	162.5	+0.4	-
Ordinary Share Fund	463.7	488.1	-5.1	-
International Fund	127.1	133.8	+0.4	-
Property Fund	207.2	218.1	+4.6	-
Deposit Fund	185.6	195.4	+0.5	-
Mixed Fund	318.9	335.6	-1.4	-
Norwich Units October 15		822.3	.....	-

*Prices as at November 30

Pearl Assurance (Unit Funds) Ltd
252 High Holborn, London WC1V 7EB 01-405 8441

	Bid Price	Offer Price	+ or -	Yield Gross
Prop. Dist. (Gross)	177.6	187.0	-	-
Prop Acc. (Gross)	299.2	315.0	+0.1	-
Equity (Gross)	626.8	659.8	-0.3	-
Managed (Gross)	465.3	489.8	-0.2	-
Prop. Acc. (Net)	138.4	145.7	-	-
Equity (Net)	150.4	158.4	-	-
Managed (Net)	144.5	152.2	-	-
International (Net)	128.4	135.1	+0.2	-
Gilt & Fxd Interest	100.9	106.3	+0.4	-
Money Fund	102.3	107.7	-	-

Providence Capital Life Assc. Co Ltd – Contd.

	Bid Price	Offer Price	+ or -	Yield Gross
Broker Fund				
Towerhill Mngd Fd Acc	43.0	45.3	-0.1	-
High Performance	59.3	62.5	-0.5	-
YRA Executive Fd	76.1	80.2	+0.2	-
Investment Master		36.4	.....	-
H F. Speculator Fd		111.1	-0.1	-
£ High Inc Money Fd		103.4	.....	-
£ Global Growth Fd		103.4	.....	-
PEP Acorn II		99.7	-0.5	-
AAFS Int. Man Fund		96.6	-0.3	-
Individual Pension Funds				
UK Equity Acc.	196.6	207.4	-0.4	-
UK Fixed Interest Acc.	164.5	173.6	.....	-
Intl Equities Acc.	159.4	168.2	-1.3	-
UK Managed Acc.	148.3	156.4	-0.1	-
Property Acc.	188.5	198.9	-0.1	-
Money Acc.	116.1	122.5	.....	-
Special Market Acc.	125.4	132.3	-0.8	-
Japan Equity Acc.	222.9	235.2	-0.4	-
North American Acc.	100.0	105.5	+1.8	-
Pacific Acc.	130.0	137.2	+0.3	-
Technology Acc.	134.6	142.0	.....	-
Natural Resources Acc.	87.5	92.4	-0.3	-
European Acc.	86.8	91.6	+0.2	-
Residential Prop Acc.	121.9	128.6	.....	-
Swiss Equities Acc.	30.3	32.0	-0.3	-
Hong Kong Acc.	42.5	44.9	+0.5	-
UK High Inc Eqy Acc.	63.1	66.6	.....	-
Int Fixed Interest Acc.	50.2	53.0	-0.4	-
Int Managed Acc.	46.3	48.8	-0.3	-
Broker Fund				
Towerhill Mgd Pen Acc.	36.0	37.9	-0.1	-
Group Pension Funds				
Equity Acc.	585.0	603.1	-2.7	-
Fixed Interest Acc.	487.3	502.4	.....	-
Managed Acc.	100.8	102.8	-0.4	-

Provident Life Assoc Ltd
Provident Way, Basingstoke RG21 2SZ 0256 470707

	Bid Price	Offer Price	+ or -	Yield Gross
Unit Fund	879.1	923.1	-0.8	-
Equity Fund	192.5	202.1	-0.2	-
International Fd	130.1	136.6	-1.5	-
Fixed Interest Fd	150.7	158.2	+0.2	-
Property Fund	196.3	206.1	.....	-
Index-Linked Fund	132.4	139.0	+0.4	-
Deposit Fund	131.7	138.3	.....	-
Pens. Mixed (Ord) Fd	204.3	214.5	-0.1	-
Gold Pensions				
Discretionary Fund		99.1	-0.1	-
Equity Fund		94.4	-0.1	-
Fixed Interest Fund		103.6	+0.3	-
International Fund		97.3	-1.0	-
Property Fund		116.9	.....	-
Index-Linked Fund		108.3	+0.4	-
Deposit Fund		104.0	+0.1	-
S & F Consolidation		101.4	+0.1	-
S & F Balanced		97.6	-0.4	-
S & F Maximum Growth		89.9	-0.2	-

Provident Mutual Life Assc. Assn.
Wilbury Rd, Hitchin, Herts SG4 0LP 0438 739000

	Bid Price	Offer Price	+ or -	Yield Gross
Managed Ord.	289.0	304.2	+1.5	-
Managed Init.	236.4	248.8	+1.2	-
Equity Ord.	394.0	414.7	+3.5	-
Equity Init.	322.3	339.3	+3	-
Index Linked Gilt Ord.	130.9	137.8	+0.2	-

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FT UNIT TRUST INFORMATION SERVICE

OTHER OFFSHORE FUNDS

Money Market Trust Funds

Money Market Bank Accounts

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

1988 High	Low	Stock	Price £	+ or –	Yield Int.	Red.
105	98	Treas 10pc Cv '91 ##	98	+	10.13	10.61
107	99	Exch. 11pc 1991	99	+	11.04	11.15
98	91	Treas. 8pc 1991	92	+	8.67	11.10
113	104	Treas 12¾pc 1992##	104	+	12.19	10.94
104	97	Treas 10pc 1992	97	+	10.25	10.91
98	91	Treas. 8pc 1992 ##	92	+	8.69	10.86
106	98	Treas 10½pc Cv 1992##	98	+	10.60	10.85
86	82	Treas. 3pc 1992	82	+	3.64	8.96
112	103	Exch. 12¼pc '92	103	+	11.79	10.93
117	107	Exch 13½pc 1992	107	+	12.51	10.87
97	91	Treas 8¼pc 1993	91	+	8.99	10.72
105	97	Treas 10pc 1993##	97	+	10.22	10.61
115	105	Treas 12½pc 1993##	106	+	11.77	10.72
93	85	Funding 6pc 1993##	85	+	7.00	9.80
121	110	Treas 13¾pc 1993##	111	+	12.37	10.77

Five to Fifteen Years

1988 High	Low	Stock	Price £	+ or –	Yield Int.	Red.
101	90	Treas. 8½pc 1994	91	+	9.30	10.68
94	90	Treas 8½pc 1994 A	91	+	9.30	10.70
125	114	Treas 14½pc 1994##	115	+	12.60	10.66
120	110	Exch 13½pc 1994	110	+	12.17	10.77
105	97	Treas. 10pc Ln. 1994##	97	+	12.21	10.50
116	106	Exch. 12½pc 1994	107	+	11.66	10.76
101	93	Treas 9pc 1994##	93	+	9.59	10.41
114	105	Treas 12pc 1995	105	+	11.35	10.69
83½	78	Exch 3pc Gas 90–95	80	+1	3.75	6.92
106	98	Exch. 10¼pc 1995	98	+	10.40	10.54
120	110	Treas 12¾pc 1995##	110	+	11.51	10.51
126	115	Treas. 14pc '96	116	+	12.03	10.63
101	93	Treas. 9pc 1992–96##	94	+	9.57	10.17
133	123	Treas 15¼pc 1996##	123	+	12.32	10.55
123	113	Exch 13¼pc 1996##	114	+	11.61	10.47
105	97	Conversion 10pc 1996	98	+	10.19	10.34
124	114	Treas 13¼pc 1997##	115	+	11.54	10.47
108	100	Exch 10½pc 1997	100	+	10.45	10.39
98	91	Treas 8¾pc 1997##	92	+	9.54	10.19
134	124	Exch 15pc 1997	125	+	12.00	10.58
104	96	Exch. 9¾pc 1998	97	+	10.08	10.29
87	81	Treas 6¾pc 1995–98##	82	+	8.27	9.77
140	130	Treas. 15½pc '98##	130	+	11.87	10.44
118	109	Exch. 12pc 1998	110	+	10.89	10.34
103	95	Treas 9½pc 1999##	97	+	9.82	10.01
120	111	Exch. 12¼pc 1999	112	+	10.93	10.32
109	101	Treas. 10½pc 1999	102	+	10.25	10.11
107	99	Conversion 10¼pc 1999	100	+	10.15	10.09
100	86	Treas. 8½pc Ln 2000##	90	+	9.37	9.88
99	92	Conversion 9pc 2000##	93	+	9.57	9.89
126	117	Treas. 13pc 2000	118	+	10.97	10.23
106	98	Treas 10pc 2001	100	+	9.96	9.93
129	120	Treas. 14pc '98–01	120	+	11.57	10.45
104	97	Conversion 9¾pc 2001	98	+	9.86	9.90
118	109	Exch. 12pc '99–02	110	+	10.86	10.29
107	99	Conversion 10pc 2002	101	+	9.88	9.83
105	97	Treas 9¾pc 2002	99	+	9.79	9.79
99	92	Exch. 9pc 2002	94	+	9.52	9.72
131	122	Treas. 13¾pc 2000–03	123	+	11.16	10.28
108	100	Treas 10pc 2003	102	+	9.75	9.67

Over Fifteen Years

1988 High	Low	Stock	Price £	+ or –	Yield Int.	Red.
117	108	Treas. 11½pc 2001–04	109	+	10.45	10.05
108	100	Treas. 10pc 2004	103	+	9.69	9.60
61	54	Funding 3½pc '99–04	58	+	6.03	8.35
104	97	Conversion 9½pc 2004	99	+	9.52	9.51
104	97	Conversion 9½pc 2005	100	+	9.49	9.49
113	105	Exch. 10½pc 2005	108	+	9.68	9.47
128	118	Treas. 12½pc 2003–05	121	+	10.29	9.74
92	85	Treas. 8pc 2002–06##	88	+	9.07	9.37
106	99	Conversion 9¾pc 2006	102	+	9.46	9.39
121	112	Treas. 11¾pc 2003–07	114	+	10.21	9.75
97	89	Treas 8½pc 2007 ##	93	+	9.10	9.24
137	127	Treas. 13½pc '04–08	130	+	10.35	9.64
101	94	Treas. 9pc 2008 ##	98	+	9.16	9.19
92	85	Treas 8pc 2009	89	+	8.95	9.14
101	93	Conv 9pc Ln 2011 ##	99	+	9.04	9.05
68	62	Treas. 5½pc 2008–12##	67	+	8.18	8.81
89	82	Treas. 7¾pc 2012–15##	87	+	8.83	8.96
131	121	Exch. 12pc '13–'17	129	+	9.28	9.03

BRITISH FUNDS—Contd

Undated

1988 High	Low	Stock	Price £	+ or –	Yield Int.	Red.
44	41	Consols 4pc	44	+	9.09	–
40	37	War Loan 3½pc##	39	+	8.83	–
62	48	Conv. 3½pc '61 Aft	61	+	5.68	–
33	30	Treas. 3pc '66 Aft	32	+	9.32	–
28	26	Consols 2½pc	27	+	9.07	–
28	26	Treas. 2½pc	27	+	9.07	–

Index-Linked

1988 High	Low	Stock (b)	Price £	+ or –	(1)	(2)
124	117½	Treas 2pc IL '90(84.6)	124	–	1.08	3.38
105	99	Do. 2pc '92##(97.8)	104¼	+	2.62	3.42
96	92½	Do. 2 '94 (102.9)	95½	–	3.14	3.62
142	127	Do. 2pc '96(67.9)	140	–	3.24	3.59
121	103	Do 2½pc '01(78.3)	119	–	3.46	3.70
118	101	Do. 2½pc '03(78.8)	116¼	–	3.53	3.74
120	102½	Do. 2pc '06(69.5)	118	–	3.57	3.75
113¼	95	Do. 2½pc '09(78.8)	111	–	3.57	3.74
117	99	Do. 2½pc '11(74.6)	116	–	3.57	3.72
97	82	Do. 2½pc '13(89.2)	96	–	3.56	3.70
105	88	Do. 2½pc '16(81.6)	104	–	3.53	3.66
103¼	87¼	Do. 2½pc '20(83.0)	102	–	3.47	3.60
87	73	Do. 2½pc '24##(97.7)	86	–	3.43	3.55

Prospective real redemption rate on projected inflation of (1) 10% and (2) 5%. (b) Figures in parentheses show RPI base month for indexing, (ie 8 months prior to issue) and have been adjusted to reflect rebasing of RPI to 100 in January 1987. Conversion factor 3.945. RPI for March 1988:104.1 and for October 1988:109.5

INT. BANK AND O'SEAS GOVT STERLING ISSUES

1988 High	Low	Stock	Price £	+ or –	Yield Int.	Red.
109	100	African Dv Bk 11¼Ln 2010	105	+	10.56	10.50
104	96	Asian Dev Bk 10¼pcLn2009	101½	+	10.10	10.07
129	120	Australia 13½pc 2010	126	+	10.65	10.37
112	103¾	Do. 11¼pcLn2015	110	+	10.32	10.24
110	103	Euro Inv Bk 11pc Ln 2002	105	+	10.45	10.27
105	98	Do. 10¾pc2004	101	+	10.26	10.23
120¼	112	Int-Am Dev Bk 12½pc 2003	115	+	10.81	10.35
98	91	Do. 9¾pcLn 2015	96	+	10.06	10.08
96½	86	M'lysia 10¾pcLn 2009	95	.....	11.29	11.35
121	87	Utd Mexican States 16½pc 2008	120	.....	13.64	12.85

CORPORATION LOANS

COMMONWEALTH & AFRICAN LOANS

LOANS

Building Societies

Public Board and Ind.

Financial

FOREIGN BONDS & RAILS

AMERICANS

Continued on next page

Norway Fund Management A/S

	Bid Price	Offer Price	+ or –	Yield Gross
SM Norway Gth Fd	76.04	79.88		3.84

Oppenheimer Managed Assets Co

	Bid Price	Offer Price	+ or –	Yield Gross
European Managed	SFr53.34	56.70	+0.17	–
Global Income	$9.86	10.48	+0.06	6.08
International Managed	$7.44	7.90	+0.03	–
Pacific Managed	$8.75	9.30	–0.02	–
Worldwide Recovery	$9.59	10.19	+0.06	–

Scimitar Worldwide Money Fund Ltd

UNIT TRUST NOTES

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AMERICANS—Contd

[illegible]

CANADIANS

[illegible]

BANKS, HP & LEASING

[illegible]

Hire Purchase, Leasing, etc.

[illegible]

BEERS, WINES & SPIRITS

[illegible]

BUILDING, TIMBER, ROADS

[illegible]

1988 High	Low	Stock	Price	+ or -	Div Net	C'vr	Y'ld Gr's	P/E
325	247	Attwoods 5p	292	—	7.0	2.3	3.3	15.0
129	116	♦BAMSS 10p	118	—	u3.75	2.2	4.2	10.9
310	218	BPB Inds. 50p	226	+1	†8.5	3.3	5.1	7.2
320	240	Baggeridge Brick	295	+2	†3.25	5.8	1.5	15.7
108	53	Bailey (Ben) 10p	90	+2	2.2	3.7	3.3	7.1
185	78	Baldwin 10p	153	+6	2.0	1.3	1.8	53.2
123	73	♦Banner Homes 10p	98	—	L2.6	3.0	3.5	10.4
253	154	Barratt Dev. 10p	157	+1	11.16	2.1	9.5	6.7
272	181	Bellway	195	—	10.0	♦	6.8	♦
113	83	Bellwinch 10p	95	−1	3.75	3.5	5.3	6.5
384	203	Berkeley Group	203	−9	3.5	7.5	2.3	7.5
122	83	Bett Bros. 20p	100	—	9.85	♦	5.3	♦
400	320	Blockleys 20p	335	—	†6.5	2.8	2.6	18.3
474	408	Blue Circle £1	434	+3	†15.0	2.8	4.6	8.7
147½	83½	Breedon	111	+1	hh3.18	1.2	3.8	29.8
295	275	BB & EA	295	—	3.0	8.8	1.4	11.1
170	110	British Dredging	123	−1	†5.0	1.7	5.4	13.8
157	95	Bryant Group	97	−1	4.3	3.8	5.9	6.0
125	110	♦Bucknall Austin 1p	110	—	L3.3	2.1	4.0	12.0
166	112	CALA 5p	133	−2	2.75	4.7	2.8	9.3
144	110	CRH	127	+1	†Q24.6%	3.4	4.1	11.1
155	102	Cakebread Robey 'A'	138xd	−2	3.8	1.5	3.9	22.3
358	258	Caradon 5p	322	—	†8.0	3.1	3.3	12.0
159	128	♦Carron Phoenix 10p	130	+2	R3.5	2.7	3.7	13.5
139	81	Church (Charles) 5p	81	—	4.0	♦	6.8	♦
178	143	Colroy 10p	147	+3	L4.0	4.9	3.6	5.9
411	195	Conder Group	395	+2	†5.5	4.3	1.9	13.4
227	112	Copson (F.) 5p	179	+1	3.0	2.6	2.2	22.0
339	259	Costain Group	294	+2	†9.65	2.6	4.4	10.5
317	203	Countryside Props.	248	−1	†1.91	14.0	1.0	9.3
231	165	Crest Nichol 10p	165	−1	†5.7	3.5	4.6	8.3
108	80	Do 5½pc Cv.Cm.Rd.Pf.	83	+1	5½%	—	9.1	—
126	73	Crosby (James) 10p	106	—	†2.0	7.1	2.5	7.4
310	229	Douglas (Robt. M)	288	—	4.25	5.5	2.0	11.2
46	26	♦Dunton Group 5p	32	−½	0.76	3.3	3.2	12.0
*199½	116½	EBC 50p	153	−3	M8.38	2.5	7.3	8.8
41	23	Edmond Hldgs 10p	35½	—	†0.8	5.2	3.0	8.5
170	118	♦Ennis Group 10p	118	—	4.8	2.3	5.4	9.7
111	78	Erith	95	−1	†3.0	2.8	4.2	11.2
216	125	♦Eve Group	206	—	6.0	2.9	3.9	11.7
215	101	Fairbriar 10p	170xd	+2	†h3.4	6.4	2.7	7.9
309	175	Fed. Housing 5p	230	−1	†5.0	5.5	2.9	8.3
100	75	Finlan Group 10p	80	—	†4.5	1.3	7.7	10.9
240	213	♦Freeman Group 10p	226	—	§6.75	3.4	4.0	9.9
74	59	Galliford 5p	67	+1	3.2	1.8	6.4	11.4
265	210	Gibbs & Dandy 10p	265	—	2.6	3.1	1.3	32.6
91	66	Do. "A" 10p	68	−2	2.6	3.1	5.1	8.4
615	385	Gleeson (MJ) 10p	595xd	—	8.14	♦	1.8	♦
265	170	Harrison Inds 10p	178	−5	6.85	3.1	5.1	8.4
170	100	♦Hatfield Ests.	160	—	3.0	♦	2.5	♦
126	91	Hewden-Stuart 10p	111	−1	†h2.04	4.8	2.5	11.1
£400	£295	Do. 10pc '03/08	£375	—	Q10%	—	2.7	—
133	86	♦Hewetson 10p	121	—	†3.0	2.4	3.3	15.1
120	108	Do. 7pc Cm Cv Pf	117xd	—	7.0	—	8.0	—
103	75	♦Hey & Croft 25p	75	−3	bL2.41	3.6	4.3	8.9
320	254	Heywood Williams	254	−1	†9.5	3.2	5.0	8.5
137	111	Do. Cnv. Prf	111	—	6.75	—	8.1	—
380	291	Higgs & Hill	308	−2	†9.0	4.2	3.9	8.1
90	67	How Group 10p	75	−2	†L2.2	3.5	3.9	9.9
69	37	Howard Hldgs. 10p	49	—	1.3	4.6	3.5	8.2
202	141	Ibstock Johnsen	145	—	†4.0	3.8	3.7	9.2

BUILDING, TIMBER, ROADS — Contd

1988 High	Low	Stock	Price	+ or -	Div Net	C'vr	Y'ld Gr's	P/E
91	20	♦Intal Amco Con	86	—	—	—	—	—
118	105	Jackson Group 10p	105	—	†3.0	3.3	3.8	10.5
183	86½	Jarvis (J.) 5p	151xd	—	1.6	3.5	1.4	26.4
133	71	♦Jennings A$.50	94	−1	Q20%	2.1	5.2	9.2
136	98	♦Johnst'ns Pts.10p	115	—	d4.765	2.3	5.5	10.3
£135	£100	Lafarge Cop. F100	£119¾	+¼	Q25%	5.3	1.9	9.7
356	270	Laing (John)	288	—	†7.0	6.0	3.2	6.8
300	260	Latham (J.) £1	297	—	9.5	3.4	4.3	9.3
179	109	Lawrence (W.)	113	+3	†4.75	3.3	5.6	7.1
187	134	Do 8.5pc CnRdPf £1	135	—	8½%	—	8.4	—
58½	38½	Lilley (F.J.C.) 12½p	49½xd	—	20.5	2.3	1.3	(27.7)
110	95	♦Lon. & Clydeside	103	+1	d5.7	1.4	7.4	11.7
260	195	Lovell (Y. J.)	208	—	†5.0	3.7	3.3	11.0
509	294	McAlpine (Alfred)	303	+8	±16.1	3.1	7.1	6.1
497	351	McCarthy & Stone 20p	351	−3	†4.1	8.0	1.6	10.6
325	190	♦McLaughlin & H.	321	+1	†8.0	2.6	3.3	15.3
262	185	Magnet	188	−1	†6.9	2.7	5.0	9.7
224	147	Manders (Hldg)	218	—	†h5.5	2.1	3.4	17.1
178½	128	Marley	142	+4	†5.0	2.9	4.7	8.9
263	224	Marshalls Halifax	230	—	†7.25	3.5	4.2	8.8
105	94	Do. 6½p Cv Cm Red Pf	99	—	6.5	—	8.8	—
133	79	Maunders (J.) 20p	93	+3	3.15	3.8	4.5	7.7
429	341	Meyer Int.	367xd	−1	9.5	5.3	3.5	7.3
243	56	Miller (Stan) 10p	173	−5	†1.25	0.7	1.0	—
438	339	Mowlem (J.)	341	—	†17.25	2.2	6.7	9.0
108	67	NSM 10p	67	—	F3.0	—	6.0	—
108	83	♦Needler Group	88	—	u09.8	2.1	4.9	9.6
£18	£10½	Newarthill £1	£18	—	s14.0	3.2	0.9	40.7
186	165	Newman-Tonks	165	—	†7.7	1.8	6.2	12.2
*184	109	Persimmon 10p	138	—	M4.5	5.9	4.3	7.0
128	87	Phoenix Timber	88	—	2.5	3.3	3.8	8.7
£10	715	Pochins	£10	—	19.0	5.6	2.5	9.4
162	132	Polypipe 10p	132	—	2.1	3.6	2.1	16.8
193	172	Prowting 20p	174	−3	W4.25	3.5	3.3	11.8
519	423	RMC	481	—	†11.0	4.4	3.0	9.5
111	73	Raine Inds. 10p	78xd	+4	3.0	2.5	5.1	9.0
180	130	♦Ramus	142	—	7.0	1.8	6.6	11.0
*450	387	Redland	402	+3	†15.85	2.6	5.3	8.5
£98¼	£84¼	Redland Cap. 7½pc Cv. '02	£96½	—	Q7½%	—	8.0	—
128	111	♦Rockel 10p	114	−1	±2.7	3.1	3.2	11.9
285	125	Roberoid	277	—	♦M6.0	3.0	2.9	19.7
148½	111	Rugby Group	130½	+½	†h4.25	3.0	4.3	9.8
*335	180	Rush & Tompkins	330	—	12.55	1.9	5.1	10.3
30	23	♦SWP Group 5p	29	—				
102	84	♦Severfield-Reeve 10p	91	−1	u2.75	2.3	4.0	12.9
312	173	Sharpe & Fisher	283	+1	4.0	4.7	1.9	15.1
161	106	♦Shorco Grp	146	+1	L3.65	2.1	3.3	14.8
265	176	Sindall (Wm) 5p	288	−15	†3.1	3.8	2.0	16.5
153	111	Smart (J.) 10p	130	—	d5.8	1.8	5.9	12.3
*352	278	Steetley	317	+1	†g9.25	3.7	3.9	8.9
264	210	Tarmac 50p	215	+1	†7.25	3.7	4.5	8.0
141	89	Tay Homes	97xd	—	h2.67	5.9	3.7	6.2
627	351	Taylor Woodrow	599	−1	†10.5	3.1	2.3	17.2
403	233	Tilbury Group	347	−3	†9.2	3.3	3.5	11.3
299	218	Travis Perkins 10p	237	−5	M7.5	—	4.2	—
135	105	♦Tudor 20p	135	—	5.0	2.5	4.9	10.7
340	189	Turriff Corp	291	+1	†h8.33	3.0	3.8	9.7
*68	38	Tysons 10p	49	+1				
165	111	Vibroplant 5p	159	—	†2.5	5.9	2.2	9.4
192	135	Ward Group 5p	188	−2	†4.3	3.6	3.2	11.6
181	93	Ward Hldgs. 10p	94	—	2.4	7.1	3.4	5.6
335	261	Watts Blake	323	−2	†6.15	3.8	2.5	13.8
*266	202	Westbury 10p	221	−1	†g5.5	6.3	3.3	5.5
281	151	Wiggins Group	221	—	†6.5	3.1	4.0	9.8
260	143	Wilson Bowden 10p	203	—	†4.2	6.2	2.8	7.7
205	143	Wilson(Connolly)	143	−2	†12.0	8.5	1.9	8.4
286	221	Wimpey (Geo)	245	+½	†6.75	3.8	3.7	9.1

CHEMICALS, PLASTICS

1988 High	Low	Stock	Price	+ or -	Div Net	C'vr	Y'ld Gr's	P/E
£44½	£25	Akzo Fl.20	£39¾	+¾	v033%	3.5	4.7	6.1
387	288	Allida Holdings	330	−3	†9.25	2.8	3.7	12.8
144	106	Allied Colloids 10p	111	−3	2.3	3.8	2.8	12.5
65	51	♦Amer Plastic Tech 1c	58	+1	L02.5c	♦	2.4	♦
679	441	Amersham Intl	518	−1	†10.0	2.9	2.6	16.7
*42	22	Astra Holdings 5p	22½	+½	0.87	2.9	5.3	8.1
£92¾	£73¼	BASF AG DM50	£88¼	+¾	v020%	1.7	3.6	16.0
159	127	BTP 10p	135	+1	6.2	1.7	6.1	12.6
£99¼	£79¾	Bayer AG DM 50	£92¼	+¾	v020%	2.3	3.4	12.7
*201	144	Blagden Inds	159	+3	F8.2	1.6	6.9	(12.0)
165	118	Brent Chems 10p	125	—	†5.2	2.0	5.5	10.6
70	40	♦Cambridge Isotope 1c	48	—	LQ0.9c	6.2	1.2	13.0
243	169	Canning (W.)	212	−1	†5.3	3.5	3.3	10.6
255	165	Chemoxy Intl. 10p	235	—	†5.75	2.6	3.3	13.2
347	285	Coalite Group	325	−3	†9.8	2.9	4.1	11.3
358	288	Coates Bros	288	—	†7.7	3.7	3.6	9.0
211	173	Croda Int. 10p	188	+1	†9.0	1.8	6.7	10.9
60	50	♦Delmar Group	57	—	2.34	2.0	5.5	12.2
118	70	Doeflex 10p	70	—	3.45	2.6	6.6	7.9
*195	147	Ellis & Everard	168	—	g5.6	2.6	4.4	12.0
£12¼	949	Engelhard U.S.$1.00	964	+15	Q52c	—	3.0	—
34	21	European Colour 5p	24	−½	†0.75	1.2	4.2	25.8
192	150	Evode Group	174	—	†4.44	2.8	3.4	14.1
275	206	Foseco	241	+2	†10.6	2.0	5.9	(9.8)
185	70	♦Gaynor Group 10p	144xd	−1	♦3.0	♦	2.8	♦
131	68	♦Graysfe S'face10p	138xd	—	♦3.0	2.5	3.1	17.2
138	102½	♦HPC Grp 12½p	131	+1	W3.3	2.7	3.4	14.6
255	226	Halstead (J.) 10p	246	+1	8.25	3.3	4.5	8.9
£28¾	£23¼	Hercules Inc	£23¼xd	—	Q$2.24	—	5.4	—
*248½	133½	Hickson Intl	281xd	−3	†g5.63	3.2	3.8	11.1
£99½	£78¼	Hoechst AG DM50	£93½	+¾	Q20%	1.9	3.4	—
£368	£280	Do. Fin. 10pcUn.Ln	£368	—	Q10%	—	2.8	—
£11½	947	Imp. Chem. £1	968	−2	†41.0	2.7	5.6	7.9
197	143	♦Jeyes Group 5p	174	—	R4.2	2.9	3.2	10.8
459	350	Laporte Inds. 50p	426	+1	†12.0	1.9	4.2	15.1
*257	197	Leigh Interests 5p	221	−1	†5.69	1.7	3.4	17.2
*197	137	Do. 6pc Cv. Red. Prf	165xd	—	6%	—	4.8	—
157	118	MTM 5p	118	—	†3.0	3.2	3.4	13.9
697	612	Montedison ADR (1000)	643	—	4%	2.8	0.3	—
£23¾	£17½	Novo Inds. 'B' Kr. 20	£21¼	+¾	v020%	4.7	1.5	14.0
£24	£14¾	Perstorp AB 'B'SKr10	£22¼	—	Q24%	4.9	1.0	21.2
183	130	Plysu	153	—	1.4	4.3	1.9	16.2
130	88	♦Porvair 2p	128	—	L2.34	3.8	2.6	(9.8)
74	43	Ransom (Wm.) 10p	52	—	1.34	2.3	3.5	15.8
324	198	Recbem Em Serv 2p	315	—	±4.5	2.5	1.9	28.0
223	175	Rentokil 10p	213	−1	†3.28	3.4	2.0	17.9
£183	£111	Schering AG DM50	£174	+1½	Q24%	2.1	2.2	16.9
*171	102	Sutcliffe Speakman	122	—	g2.0	3.5	2.3	13.7
75	47	Thurgar Bardex 10p	47	—	†2.25	2.4	6.4	8.6
78	58	♦Transrap 10p	73	—	2.0	2.0	3.7	16.5
123	106	Vikleg Pack. 10p	108	—	†3.5	2.0	4.3	15.2
659	500	Wardle Storeys 10p	629xd	—	†12.0	3.4	2.5	15.3
40	36	♦Wentworth 10p	36	—	1.75	1.9	6.5	9.8
545	270	Wolstenholme Rink	408	+3	10.25	3.1	3.3	13.0
275	213	Yorkshire Chems	243	+2	†7.0	3.7	3.8	8.5
143	106	Yule Catto 10p	113	—	†3.0	3.2	3.5	10.8

DRAPERY AND STORES

[illegible]

ELECTRICALS

[illegible]

ENGINEERING

[illegible]

ENGINEERING—Contd

[illegible]

FOOD, GROCERIES, ETC

[illegible]

HOTELS AND CATERERS

[illegible]

INDUSTRIALS (Miscel.)

[illegible]

INDUSTRIALS (Miscel.)—Contd

[illegible]

INDUSTRIALS (Miscel.)—Contd.

[illegible]

INSURANCES

[illegible]

LEISURE

[illegible]

LONDON SHARE SERVICE

● Latest Share Prices are available on FT Cityline. To obtain your free Share Code Booklet ring the FT Cityline help desk on 01-925-2128

LEISURE—Contd

1988 High	Low	Stock	Price	+ or –	Div Net	C'vr	Y'ld Gr's	P/E
163	138	Hi-Tec Sports	138	......	L3.6	3.4	3.5	10.1
32	14	Int'l Media Cms. 5p	17	–1	–	–	–	–
79	49	Juliana's Hldgs 2p	69	......	–	–	–	–
46½	32	Konick 10p	41½	......	†2.85	1.4	5.5	15.1
193	122	LWT 5p	156	......	†1.0	2.4	3.2	16.5
448	183	LandLeisure 10p	366	......	5.7	2.6	4.9	10.1
*118	66	Leisure Inv 10p	89	......	48.0	4.6	2.9	9.7
*112	64	LeisureTime Int 10p	84	+2	1.75	1.4	2.7	(27.1)
440	255	Marina Dev. 50p	345	–5	–	–	–	–
218	157	Mecca Leisure 10p	161	+1	‡2.0	3.5	0.8	67.7
127	79	Medminster 10p	110	......	4.5	♦	3.8	♦
182	126	Midsummer Lels 10p	168	–1	3.67	2.6	4.4	11.6
460	200	Miss World 10p	431	......	†1.6	3.1	1.3	28.1
62	32	Moliere Visions 50p	41	......	6.0	2.6	2.5	21.0
147	120	Noble Raredon 5p	140	......	–	–	–	23.7
23	17	Omnicorp Inv. NZ$0.5	20	......	‡1.33	1.5	1.3	69.2
169	87	Orient Ex Hlds $0.125	108	......	Q20	3.5	3.5	4.7
*89	61	Owners Abroad 3p	85	+1	–	–	–	–
188	130	Pavilion Leisure 10p	138	......	g2.1	1.9	3.3	25.5
211	55	P'dilly Radio NV 5p	168	......	–	–	–	–
264	175	Pickwick	225	–1	3.25	♦	2.6	♦
*262	147	Pleasurama 5p	238	–1	†2.6	2.9	1.5	29.4
*233	135	Do. 7pcCvCumRedPf	226	......	†16.0	2.4	3.4	14.1
150	114	Prestwich	123	......	7%	–	4.2	–
142	78	Prism Leisure 10p	141	......	1.29	7.5	1.4	13.1
*294	122	Quadrant Group 10p	219	+1	4.46	2.5	4.2	11.9
367	97	Radio City 'A' NV	347	......	F3.6	3.4	2.2	18.7
276	89	Radio Clyde	246	......	6.0	♦	–	♦
610	494½	Really Useful Grp 5p	515	+3	5.75	♦	3.1	♦
239	164	Saga Group 20p	234	......	15.0	2.3	3.9	15.1
110	78	Scott. Ice Rink 2½p	84	......	†4.6	1.2	2.6	40.2
434	343	Scott. TV 10p	366	+6	‡17.0	3.0	–	7.3
15	11	SelecTV 10p	11	–½	–	–	–	–

MOTORS, AIRCRAFT TRADES

Commercial Vehicles

Components

Garages and Distributors

NEWSPAPERS, PUBLISHERS

PAPER, PRINTING, ADVERTISING

PROPERTY

SHIPPING

SHOES AND LEATHER

SOUTH AFRICANS

TEXTILES

TEXTILES—Contd

TOBACCOS

TRUSTS, FINANCE, LAND

Investment Trusts

TRUSTS, FINANCE, LAND—Contd

Finance, Land, etc

OIL AND GAS

OIL AND GAS—Contd

OVERSEAS TRADERS

PLANTATIONS

Rubbers, Palm Oil

Teas

MINES

Central Rand

Eastern Rand

Far West Rand

O.F.S.

Diamond and Platinum

Central African

Finance

Australians

MINES—Contd

Tins

Miscellaneous

THIRD MARKET

NOTES

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

IRISH

TRADITIONAL OPTIONS

3-month call rates

Industrials

Property

Oils

Mines

A selection of Options traded is given on the London Stock Exchange Report Page

This service is available to every Company dealt in on Stock Exchanges throughout the United Kingdom for a fee of £540 per annum for each security.

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Dollar and pound edge firmer

The dollar finished slightly firmer in currency markets yesterday, deriving some support from lingering fears of an early rise in the US discount rate. Early trading had been subdued, although most traders were looking for a slight dollar improvement after its recent success in holding chart support levels.

However, despite the firmer tone, the dollar's upward potential appears to be strictly limited. There is a general lack of incentive, and no major economic statistics are due until next Wednesday, when US trade figures for October are due for release. In addition, the longer term view remains bearish, and any attempt to push the dollar above DM1.7360 and Y122 is likely to meet with renewed selling.

The dollar rose to DM1.7325 from DM1.7240 and Y121.70 compared with Y121.45. Elsewhere, it finished at SFr1.4525 from SFr1.4450 and FFr5.9150 against FFr5.8900. On Bank of England figures, the dollar's exchange rate index rose from 91.9 to 92.1.

Sterling retained its firm undertone, deriving support from the high level of return offered on sterling denominated paper. Investor interest tended to centre on the pound, as other leading currencies were mainly confined to a narrow range.

The pound's exchange rate index rose to 78.8, its highest level since mid-May, and up from 78.7 at the opening and Monday's close. Sterling was slightly easier against the dollar at $1.8655 from $1.8700, but rose against the D-Mark to DM3.2325 from DM3.2250. It was unchanged against the yen at Y227.00, but rose elsewhere to SFr2.7100 from SFr2.7025 and FFr11.0350 compared with FFr11.0150.

The French franc continued to brush aside the effects of public sector strikes in France, and maintained trading within a narrow range. However, investor confidence is likely to modify if the US dollar loses ground. This is because a weak dollar would boost the D-Mark and put pressure on EMS cross-rate parities. The D-Mark is confined to a FFr3.4150-3.4175 range at the moment, but any move up towards FFr3.4200 is likely to bring a reaction from the Bank of France.

Dealers noted comments by Mr Jacques de Larosiere, Governor of the Bank of France, which suggested that progress on reducing inflation and the budget deficit could ultimately presage a reduction in French interest rates. He added that the inflation rate differential between France and its major trading partner West Germany - at 1.4 p.c. - is its lowest ever.

The D-Mark closed at FFr3.4140, down slightly from FFr3.4160 on Monday. The West German unit was little affected by comments made by Mr Karl Otto Poehl, president of the West German Bundesbank, in which he stressed that monetary targets for next year would be aimed at maintaining confidence in the D-Mark.

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu central rates	Currency amounts against Ecu Dec.6	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc	42.4582	43.5782	+2.64	+0.78	±1.5344
Danish Krone	7.85212	8.01193	+2.04	+0.18	±1.5404
German D-Mark	2.05853	2.07980	+1.03	-0.83	±1.0981
French Franc	6.90403	7.10458	+2.90	+1.04	±1.3674
Dutch Guilder	2.31943	2.34610	+1.15	-0.71	±1.5012
Irish Punt	0.768411	0.777559	+1.19	-0.67	±1.6684
Italian Lira	1483.58	1537.26	+3.62	+2.48	±4.0752

Changes are for Ecu, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

£ IN NEW YORK

Dec.6	Latest	Previous Close
£ Spot	1.8678-1.8683	1.8680-1.8685
1 month	0.53-0.52pm	0.57-0.55pm
3 months	1.68-1.66pm	1.70-1.67pm
12 months	5.87-5.77pm	6.00-5.85pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

	Dec.6	Previous
8.30 am	78.7	78.7
9.00 am	78.7	78.8
10.00 am	78.7	78.7
11.00 am	78.8	78.8
Noon	78.8	78.7
1.00 pm	78.8	78.7
2.00 pm	78.8	78.6
3.00 pm	78.8	78.7
4.00 pm	78.8	78.7

CURRENCY RATES

Dec.6	Bank rate %	Special* Drawing Rights	European Currency Unit
Sterling	-	0.734821	0.644721
U.S Dollar	6.50	1.37360	1.20498
Canadian $	8.75	1.62881	1.43128
Austrian Sch.	4	16.6425	14.6297
Belgian Franc	7¼	49.5664	43.5782
Danish Krone	7½	9.12551	8.01193
Deutsche Mark	3½	2.65753	2.07980
Neth.Guilder	4	2.66822	2.34610
French Franc	9½	8.08226	7.10458
Italian Lira	12½	1749.78	1537.26
Japanese Yen	2½	166.892	146.430
Norway Krone	8	8.81576	7.74684
Spanish Peseta	-	154.292	135.500
Swedish Krona	8½	N/A	7.23050
Swiss Franc	3	1.98142	1.74180
Greek Drach.	20½	197.132	172.891
Irish Punt	-	N/A	0.777559

*All SDR rates are for Dec.5

CURRENCY MOVEMENTS

Dec.6	Bank of England Index	Morgan** Guaranty Changes %
Sterling	78.8	-13.6
U.S Dollar	92.1	-15.2
Canadian Dollar	84.2	-1.4
Austrian Schilling	136.2	+10.0
Belgian Franc	99.0	-5.6
Danish Krone	90.1	+0.1
[illegible]	[illegible]	[illegible]

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (Base Average 1975=100) [illegible]

OTHER CURRENCIES

[illegible]

*Selling rate

POUND SPOT- FORWARD AGAINST THE POUND

Dec.6	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.8645 - 1.8710	1.8650 - 1.8660	0.55-0.52cpm	3.44	1.68-1.63pm	3.55
Canada	2.2165 - 2.2235	2.2195 - 2.2205	0.47-0.35cpm	2.22	1.13-0.99pm	1.91
Netherlands	3.62¾ - 3.64¼	3.62¾ - 3.63¾	2½-2¼cpm	7.85	6¾-6⅝pm	7.36
Belgium	67.45 - 67.75	67.65 - 67.75	38-33cpm	6.29	103-93pm	5.79
Denmark	12.42 - 12.43½	12.42½ - 12.43½	5⅞-5orepm	5.25	15⅝-14⅝pm	4.87
Ireland	1.2025 - 1.2095	1.2060 - 1.2070	0.60-0.50cpm	5.47	1.58-1.48pm	5.07
W. Germany	3.22¼ - 3.23½	3.22 - 3.23½	2¼-2⅛pfpm	8.12	6¼-6pm	7.58
Portugal	266.25 - 267.55	266.25 - 267.35	15pm-30cdis	-1.01	4-106dis	-0.82
Spain	209.65 - 210.45	209.70 - 210.35	53-36cpm	2.54	98-76pm	1.66
Italy	2381¼ - 2388½	2387½ - 2388½	3-parlirepm	0.75	8-4pm	1.01
Norway	11.99½ - 12.02¼	11.99½ - 12.00½	1⅞-1⅛orepm	1.63	4¼-3½pm	1.27
France	11.00¼ - 11.04	11.03 - 11.04	4⅞-4⅝cpm	5.17	13¼-12¼pm	4.69
Sweden	11.19¼ - 11.22¼	11.19¼ - 11.20¼	2⅞-2⅛orepm	2.75	7⅝-7pm	2.61
Japan	226½ - 227½	226½ - 227½	1¾-1⅝ypm	8.92	4⅞-4⅝pm	8.37
Austria	22.65 - 22.70	22.65 - 22.70	15⅛-14⅛gropm	7.81	43¼-41pm	7.43
Switzerland	2.69¾ - 2.71½	2.70½ - 2.71½	1⅞-1¾cpm	8.03	5½-5¼pm	7.93

Belgian rate is convertible francs. Financial franc 67.85-67.95. Six-month forward dollar 3.30-3.25cpm 12 month 5.90-5.80pm

DOLLAR SPOT- FORWARD AGAINST THE DOLLAR

Dec.6	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.8645 - 1.8710	1.8650 - 1.8660	0.55-0.52cpm	3.44	1.68-1.63pm	3.55
Ireland†	1.5460 - 1.5515	1.5460 - 1.5470	0.30-0.35cdis	-2.52	0.52-0.62dis	-1.47
Canada	1.1860 - 1.1895	1.1885 - 1.1895	0.10-0.14cdis	-1.21	0.47-0.51dis	-1.67
Netherlands	1.9440 - 1.9520	1.9470 - 1.9480	0.73-0.70cpm	4.41	1.88-1.83pm	3.81
Belgium	36.10 - 36.35	36.25 - 36.35	9.00-8.00cpm	2.82	21.50-18.50pm	2.21
Denmark	6.64 - 6.66½	6.66 - 6.66½	1.20-0.90orepm	1.89	2.60-2.00pm	1.38
W. Germany	1.7230 - 1.7330	1.7320 - 1.7330	0.68-0.65pfpm	4.62	1.77-1.74pm	4.07
Portugal	143 - 143½	143¼ - 143½	40-70cdis	-4.61	125-200dis	-4.54
Spain	112.25 - 112.55	112.45 - 112.55	3-13cdis	-0.85	48-63dis	-1.98
Italy	1273 - 1280¼	1279¾ - 1280¼	2.30-3.30liredis	-2.63	7.50-9.00dis	-2.59
Norway	6.42 - 6.43½	6.43 - 6.43½	0.75-1.05oredis	-1.68	3.50-3.90dis	-2.30
France	5.88½ - 5.91¼	5.91¼ - 5.91¾	0.85-0.80cpm	1.68	1.73-1.63pm	1.14
Sweden	5.99 - 6.00½	6.00 - 6.00½	0.25-0.45oredis	-0.70	1.25-1.65dis	-0.97
Japan	121.30 - 121.75	121.65 - 121.75	0.57-0.54ypm	5.48	1.49-1.46pm	4.85
Austria	12.12¼ - 12.16	12.15 - 12.15½	6.00-3.00gropm	4.45	15.00-8.00pm	3.79
Switzerland	1.4435 - 1.4530	1.4520 - 1.4530	0.59-0.56cpm	4.77	1.61-1.56pm	4.39

† UK and Ireland are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency. Belgian rate is for convertible francs. Financial franc 36.35-36.45.

EURO-CURRENCY INTEREST RATES

Dec.6	Short term	7 Days notice	One Month	Three Months	Six Months	One Year
Sterling	12⅞-12¼	13-12¾	13⅛-12⅞	13¼-13⅛	13⅜-13¼	13⅜-12⅞
US Dollar	8⅞-8¾	8⅝-8½	9⅝-9½	9⅞-9¾	9⅝-9¾	9½-9⅜
Can. Dollar	10¼-9⅞	10¼-9⅞	10⅝-10⅜	11⅛-10⅞	11⅛-10⅞	11⅛-10⅞
D. Guilder	5¼-5⅛	5¼-5⅛	5⅜-5¼	5⅝-5½	5½-5⅜	5⅝-5½
Sw. Franc	4⅝-4½	4⅝-4⅜	5⅛-5	5-4⅞	4⅞-4⅝	4⅝-4½
Deutschmark	4⅞-4¾	4⅞-4¾	5¼-5⅛	5¼-5⅛	5¼-5⅛	5⅜-5¼
Fr. Franc	7⅞-7¾	7⅞-7¾	8¼-8	8¼-8	8⅜-8⅛	8½-8¼
Italian Lire	13-12	12⅝-12⅛	12½-12	12½-12	12¼-12	12⅝-11⅞
B. Fr. (Fin)	7¼-7⅛	7⅛-7	7⅛-7	7⅛-7	7⅜-7¼	7⅜-7¼
B. Fr. (Con.)	7¼-7	7¼-7	7¼-7	7½-7¼	7½-7¼	7½-7¼
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Long term Eurodollars: two years [illegible] p.c.; three years [illegible] p.c.; four years [illegible] p.c.; five years [illegible] p.c. nominal. Short term rates are call for US Dollars and Japanese Yen; others, two days' notice.

EXCHANGE CROSS RATES

[illegible]

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100.

FINANCIAL FUTURES

Upward trend in prices

DOLLAR AND sterling interest rate futures rose on the Liffe market yesterday. March US Treasury bond futures closed at the day's high of 88-04, compared with 87-15 on Monday.

Dealers said the gain was at least partly the result of an erroneous figure for Federal funds on a screen based information system.

Federal funds were quoted at 9¼ p.c., instead of 8⅝ p.c., leading to rumours that the Federal Reserve was about to raise its discount rate. This boosted the dollar and bond prices.

Hopes that UK bank base rates may hold at 13 p.c. were boosted by the Halifax Building Society's monthly house price index. This showed a fall in London and south east England house prices, for the first time in about three years.

Short sterling futures, for March delivery, rose to 87.08 from 86.96, after touching a peak of 87.10. Dealers said there is a strong upward resistance point of 87.14, and it is likely to take good UK economic news to push the contract through this level.

LIFFE LONG GILT FUTURES OPTIONS

[illegible]

LIFFE US TREASURY BOND FUTURES OPTIONS

[illegible]

LIFFE FT-SE INDEX FUTURES OPTIONS

[illegible]

LIFFE £/$ OPTIONS

[illegible]

LIFFE EURODOLLAR OPTIONS

[illegible]

LIFFE SHORT STERLING

[illegible]

PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per £1)

[illegible]

LONDON SE £/$ OPTIONS £12,500 (cents per £1)

Strike Price	Calls-settlements Dec	Jan	Feb	Mar	Puts-settlements Dec	Jan	Feb	Mar
1.650	15.65	16.15	-	16.20	0.35	0.45	-	0.90
1.700	12.90	11.15	11.30	13.25	0.30	0.55	1.30	1.80
1.750	9.95	6.25	7.20	7.55	0.20	1.50	2.45	3.15
1.800	6.90	4.90	4.20	4.70	1.00	4.60	4.50	5.30
1.850	2.45	2.40	3.05	4.70	1.55	2.10	3.25	8.15
1.900	4.25	1.40	1.55	1.60	9.75	5.05	11.35	11.95
1.950	0.45	-	-	1.40	17.60	-	-	20.40

Estimated volume total, Calls N/A Puts N/A
Previous day's open int. Calls 256 Puts 279

LONDON (LIFFE)

20-YEAR 9% NOTIONAL GILT £50,000 32nds of 100%

[illegible]

7-10 YEAR 9% NOTIONAL GILT £50,000 32nds of 100%

[illegible]

6% NOTIONAL LONG TERM JAPANESE GOVT. BOND Y100m 100ths of 100%

[illegible]

THREE MONTH STERLING £500,000 points of 100%

[illegible]

FT-SE 100 INDEX £25 per full index point

[illegible]

THREE MONTH EURODOLLAR $1m points of 100%

[illegible]

US TREASURY BONDS 8% $100,000 32nds of 100%

[illegible]

6% NOTIONAL GERMAN GOVT. BOND DM 250,000 100ths of 100%

[illegible]

Estimated Volume [illegible]
Previous day's open int. 9956 (10205)

POUND-$ (FOREIGN EXCHANGE)

Spot	1-mth.	3-mth.	6-mth.	12-mth.
1.8655	1.8601	1.8489	1.8327	1.8070

IMM-STERLING $s per £

	Latest	High	Low	Prev.
Dec	1.8644	1.8682	1.8640	1.8662
Mar	1.8490	1.8528	1.8480	1.8510
Jun	1.8356	1.8366	1.8356	1.8340

CHICAGO

U.S. TREASURY BONDS (CBT) 8% $100,000 32nds of 100%

	Latest	High	Low	Prev.
Dec	88-04	88-07	87-30	87-31
Mar	87-24	87-27	87-19	87-19
Jun	87-12	87-14	87-11	87-08
Sep	87-03	87-03	87-02	86-30
Dec	86-26	86-26	86-25	86-21
Mar	86-16	86-16	86-16	86-12
Jun	-	-	-	86-03
Sep	-	-	-	-
Dec	-	-	-	85-19
Mar	-	-	-	85-11
Jun	-	-	-	85-03

JAPANESE YEN (IMM) Y12.5m $ per Y100

	Latest	High	Low	Prev
Dec	0.8242	0.8251	0.8241	0.8249
Mar	0.8338	0.8347	0.8338	0.8346
Jun	0.8445	-	0.8445	0.8452
Sep	0.8543	0.8547	0.8543	0.8549

DEUTSCHE MARK (IMM) DM125,000 $ per DM

	Latest	High	Low	Prev
Dec	0.5798	0.5808	0.5796	0.5809
Mar	0.5852	0.5863	0.5852	0.5867
Jun	0.5929	0.5929	0.5929	0.5930

U.S. TREASURY BILLS (IMM) $1m points of 100%

	Latest	High	Low	Prev.
Dec	91.97	91.98	91.97	91.93
Mar	92.10	92.12	92.09	92.08
Jun	92.12	92.12	92.11	92.09
Sep	92.07	92.08	92.07	92.04
Dec	91.92	91.92	91.90	91.86
Mar	92.00	92.00	92.00	91.94
Jun	-	-	-	91.91

THREE-MONTH EURODOLLAR (IMM) $1m points of 100%

	Latest	High	Low	Prev
Dec	90.65	90.65	90.62	90.59
Mar	90.78	90.80	90.77	90.74
Jun	90.77	90.78	90.75	90.71
Sep	90.71	90.71	90.69	90.64
Dec	90.53	90.53	90.51	90.46
Mar	90.57	90.58	90.57	90.51
Jun	90.54	90.54	90.52	90.45
Sep	90.49	90.49	90.47	90.40

SWISS FRANC (IMM) SFr 125,000 $ per SFr

	Latest	High	Low	Prev.
Dec	0.6924	0.6935	0.6922	0.6936
Mar	0.6996	0.7007	0.6993	0.7009
Jun	0.7085	0.7093	0.7085	0.7097
Sep	0.7172	-	0.7172	0.7180

STANDARD & POORS 500 INDEX $500 times index

	Latest	High	Low	Prev.
Dec	276.15	276.20	275.55	275.90
Mar	279.25	279.30	278.70	278.95
Jun	282.30	282.30	281.80	281.95
Sep	285.00	285.00	284.30	284.35

EUROPEAN OPTIONS EXCHANGE

[illegible]

TOTAL VOLUME IN CONTRACTS. 41,499
A - Ask B - Bid C - Call P - Put

BASE LENDING RATES

	%
ABN Bank	13
Adam & Company	13
AIB - Allied Arab Bk	13
Allied Irish Bank	13
● Henry Ansbacher	13
ANZ Banking Group	13
Associates Cap Corp	12
Authority Bank	13
● B & C Merchant Bank	13
Bank of Baroda	13
Banco Bilbao Vizcaya	13
Bank Hapoalim	13
Bank Leumi (UK)	13
Bank Credit & Comm	13
Bank of Cyprus	13
Bank of Ireland	13
Bank of India	13
Bank of Scotland	13
Banque Belge Ltd	13
Barclays Bank	13
Benchmark Bank PLC	13
Berliner Bank AG	13
Brit Bk of Mid East	13
● Brown Shipley	13
Business Mtge Tst	13½
CL Bank Nederland	13
Central Capital	13
● Charterhouse Bank	13
Citibank NA	13
City Merchants Bank	13
Clydesdale Bank	13
Comm Bk N East	13
Co-operative Bank	*13
Coutts & Co	13
Cyprus Popular Bk	13
Dunbar Bank PLC	13
Duncan Lawrie	13
Equatorial Bank plc	13
Exeter Trust Ltd	13½
Financial & Gen. Bank	13
First National Bank Plc	14
● Robert Fleming & Co.	13
Robert Fraser & Ptnrs.	13½
Girobank	13
● Guinness Mahon	13
HFC Bank plc	13
● Hambros Bank	13
Heritable & Gen Inv Bnk	13
● Hill Samuel	§13
C. Hoare & Co.	13
Hongkong & Shangh	13
● Leopold Joseph & Sons	13
Lloyds Bank	13
Meghraj Bank Ltd	13
McDonnell Douglas Bnk	13
Midland Bank	13
Mortgage Express Ltd.	‡13.95
Mount Bnkg Corp.	13
Nat Bk. of Kuwait	13
NatWestminster	13
Northern Bank Ltd	13
Norwich Gen. Trust	13
PRIVATbanken Limited	13
Provincial Bank PLC	14
R. Raphael & Sons	12
Roxburghe Guarantee	13½
Royal Bk of Scotland	13
Royal Trust Bank	13
● Smith & Williamson Secs.	13
Standard Chartered	13
TSB	12
United Bk of Kuwait	13
United Mizrahi Bank	13
Unity Trust Bank Plc	13
Western Trust	13
Westpac Bank Corp.	13
Whiteaway Laidlaw	13½
Yorkshire Bank	13

● Members of British Merchant Banking & Securities Houses Association. * 7 day deposits 5.22%. Savewise 8.47%. Top Tier-£10,000+ instant access 11.06% ‡ Mortgage base rate. § Demand deposit 8%. Mortgage 12.375% - 12.75%

MONEY MARKETS

London rates ease

THERE WAS an easier trend in London interest rates yesterday. Three-month interbank fell to 13¼-13⅛ p.c. from 13⅜-13⅜ p.c., as sterling rose above a technical resistance level of DM3.23. This gave support to hopes that UK bank base rates can be held at 13 p.c.

The Bank of England initially forecast a money market credit shortage of around £900m, but revised this to £1bn at noon, and to £950m in the afternoon. Total help of £956m was provided.

UK clearing bank base lending rate 13 per cent from November 25

An early round of help was offered, and at that time the authorities bought £150m bills, by way of £6m bank bills in band 2 at 12⅞ p.c.; £93m bank bills in band 3 at 12¾ p.c.; and £51m bank bills in band 4 at 12¾ p.c.

Before lunch the authorities purchased another £207m bills outright, via £5m local authority bills in band 1 at 12⅞ p.c.; £84m bank bills in band 1 at 12⅞ p.c.; £42m Treasury bills in band 3 at 12⅞ p.c.; £45m bank bills in band 3 at 12¾ p.c.; and £31m bank bills in band 4 at 12¾ p.c. Another £40m bills were bought, for resale to the market on December 14, at a rate of 12⅞ p.c.

In the afternoon the Bank of England purchased £349m bills outright, through £38m bank bills in band 1 at 12⅞ p.c.; £124m bank bills in band 2 at 12⅞ p.c.; £25m bank bills in band 3 at 12¾ p.c.; £45m local authority bills in band 4 at 12¾ p.c.; and £17m bank bills in band 4 at 12¾ p.c. Late assistance of around £310m was also provided.

Bills maturing in official hands, repayment of late assistance, and a take-up of Treasury bills drained £218m, with Exchequer transactions absorbing £580m; a rise in the note circulation £45m; and bank balances below target £45m.

In New York the Federal Reserve added $2bn of temporary reserves to the banking system, via customer repurchase agreements, when Federal funds were trading at 8⅝ p.c.

In Frankfurt credit conditions were slightly tighter, with call money firming to 4.90 p.c. from 4.85 p.c., ahead of the Bundesbank's allocation fo funds from a securities repurchase agreement tender.

Conditions are expected to remain relatively tight ahead of Christmas and the year-end, leading to hopes the authorities will be fairly generous in their allocation of money. The Bundesbank offered a 35-day agreement, at no minimum bid rate. An earlier facility of DM13.7bn expires today.

FT LONDON INTERBANK FIXING

(11.00 a.m. Dec.6) 3 months US dollars		6 months US Dollars	
bid 9⅝	offer 9¾	bid 9⅝	offer 9¾

The fixing rates are the arithmetic means rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted by the market to five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque National de Paris and Morgan Guaranty Trust.

MONEY RATES

NEW YORK (Lunchtime)

Prime rate	10½
Broker loan rate	9¼-⅝
Fed.funds	8⅝
Fed.funds at intervention	8⅝

Treasury Bills and Bonds

One month	6.57	Three year	8.96
Two month	7.64	Four year	8.99
Three month	8.26	Five year	8.98
Six month	8.70	Seven year	9.03
One year	8.83	10-year	9.06
Two year	8.96	30-year	9.07

Dec.6	Overnight	One Month	Two Months	Three Months	Six Months	Lombard Intervention
Frankfurt	4.85-4.95	5.00-5.20	5.00-5.15	5.00-5.15	5.05-5.30	5.00
Paris	7⅞-7⅞	7⅞-8⅛	8-8⅛	8⅛-8⅜	8⅜-8⅜	7.25
Zurich	3⅞-4⅛	4⅞-5⅛	-	4⅝-4⅞	-	-
Amsterdam	5.31-5.43	5.37-5.43	-	5.40-5.50	-	-
Tokyo	3.90625	4.46875	-	4.34375	-	-
Milan	10¾-11¼	11⅞-12⅜	-	11¾-12¼	-	-
Brussels	6.40	7⅛-7⅛	-	7⅛-7¼	-	-
Dublin	7¼-7½	7⅝-7⅞	7¾-8	7⅞-8⅛	8¼-8½	-

LONDON MONEY RATES

Dec.6	Overnight	7 days notice	One Month	Three Months	Six Months	One Year
Interbank Offer	13½	13	13⅛	13⅜	13⅜	13⅜
Interbank Bid	11	12¾	12⅞	13⅛	13⅛	12⅞
Sterling CDs.	-	-	12⅞	13⅛	13⅛	12⅞
Local Authority Deps.	12⅞	12⅞	12⅞	13⅛	13	13
Local Authority Bonds	-	-	12¾	12½	12⅞	12⅞
Discount Mkt Deps.	13	12⅞	12⅞	12⅞	-	-
Company Deposits	-	-	12⅞	13¼	13¼	13⅛
Finance House Deposits	-	-	13⅛	13¼	13⅛	13⅛
Treasury Bills (Buy)	-	-	12¾	12⅞	-	-
Bank Bills (Buy)	-	-	12⅞	12⅞	12⅞	-
Fine Trade Bills (Buy)	-	-	13⅛	13⅛	13⅛	-
Dollar CDs	-	-	9.55-9.50	9.35-9.30	9.35-9.30	9.40-9.35
SDR Linked Dep Offer	-	-	7⅞	7⅞	7⅞	7⅞
SDR Linked Dep Bid	-	-	7⅝	7⅝	7⅝	7⅝
ECU Linked Dep Offer	-	-	7⅞	7⅞	8	8
ECU Linked Dep Bid	-	-	7¾	7⅞	7⅞	7⅞

Treasury Bills (sell): one-month 12⅞ per cent; three months 12⅞ per cent; Bank Bills (sell): one-month 12⅞ per cent; three months 12⅞ per cent; Treasury Bills: Average tender rate of discount 12.5993 p.c. ECGD Fixed Rate Sterling Export Finance. Make up day November 30, 1988. Agreed rates for period December 26, 1988 to January 24, 1989. Scheme I: 13.27 p.c. Schemes II & III: 13.61 p.c. Reference rate for period November 1, 1988 to November 30, 1988. Scheme IV&V: 12.251 p.c. Local Authority and Finance Houses seven days' notice, others seven days' fixed. Finance Houses Base Rate 12½ from December 1, 1988: Bank Deposit Rates for sums at seven days notice 4 per cent. Certificates of Tax Deposit (Series 6): Deposit £100,000 and over held under one month 7½ per cent; one-three months 9 per cent; three-six months 9 per cent; six-nine months 9½ per cent; nine-twelve months 9½ per cent; Under £100,000 7 per cent from July 5, 1988. Deposits withdrawn for cash 5 per cent.

WORLD STOCK MARKETS

CANADA

TORONTO

2pm prices December 6

INDICES

NEW YORK — DOW JONES

	Dec 5	Dec 2	Dec 1	Nov 30	1988 High	1988 Low	Since compilation High	Since compilation Low
♦Industrials	2123.76	2092.28	2101.88	2114.51	2183.50 (21/10)	1879.14 (20/1)	2722.42 (25/8/87)	41.22 (2/7/32)
Home Bonds	89.02	88.98	89.32	89.14	91.25 (3/3)	86.12 (4/1)	-	-
Transport	946.17	934.86	935.77	936.52	946.17 (5/12)	737.57 (21/1)	1101.16 (14/8/87)	12.32 (8/7/32)
Utilities	184.57	183.74	184.39	185.63	190.02 (29/1)	167.26 (20/4)	227.83 (22/1/87)	10.50 (8/4/32)

♦Day's High 2135.49 (2105.80) Low 2092.64 (2075.39)

STANDARD AND POOR'S	Dec 5	Dec 2	Dec 1	Nov 30	1988 High	1988 Low	Since compilation High	Since compilation Low
Composite ‡	274.93	271.81	272.49	273.70	282.88 (20/10)	242.63 (20/1)	336.77 (25/8/87)	4.40 (1/6/32)
Industrial	317.97	313.62	313.78	315.12	327.53 (24/10)	277.86 (20/1)	393.17 (25/8/87)	3.62 (21/6/32)
Financial	25.00	24.77	24.84	24.94	26.42 (20/10)	21.51 (8/1)	32.43 (25/8/87)	8.64 (1/10/74)
NYSE Composite	154.48	153.02	153.37	153.90	159.01 (20/10)	136.72 (20/1)	187.99 (25/8/87)	4.46 (25/4/42)
Amex Mkt. Value	296.75	295.27	295.25	294.36	309.33 (10/6)	262.76 (12/1)	365.01 (13/8/87)	29.31 (9/12/72)
NASDAQ OTC Comp	375.41	373.91	373.87	371.45	394.77 (18/7)	331.97 (12/1)	455.28 (26/8/87)	54.87 (31/10/72)

	Dec 2	Nov 25	Nov 18	year ago (approx.)
Dow Industrial Div. Yield	3.79	3.82	3.83	3.88
	Nov 30	Nov 16	Nov 9	year ago (approx.)
S & P Industrial div. yield	3.21	3.32	3.19	3.31
S & P Indl. P/E ratio	12.64	12.13	12.60	16.39

TRADING ACTIVITY † Volume Millions

	Dec 5	Dec 2	Dec 1
New York	144.660	125.205	129.380
Amex	11.870	13.830	19.603
OTC	118.669	125.023	123.269

NEW YORK	Dec 5	Dec 2	Dec 1
Issues Traded	1,975	1,929	1,953
Rises	929	603	662
Falls	533	803	794
Unchanged	513	523	497
New Highs	36	18	22
New Lows	21	28	27

CANADA

TORONTO	Dec 5	Dec 2	Dec 1	Nov 30	1988 High	1988 Low
Metals & Minerals	2992.8	2945.6	2947.6	2925.4	3226.5 (5/7)	2238.7 (8/2)
Composite	3311.2	3293.3	3300.5	3294.7	3465.4 (5/7)	2977.9 (8/2)
MONTREAL Portfolio	1647.13	1633.80	1640.31	1640.31	1723.71 (5/7)	1305.06 (27/1)

NEW YORK ACTIVE STOCKS

Today	Stocks traded	Closing price	Change on day		Stocks traded	Closing price	Change on day
Oxy Pete	1,044,600	26	---	AT&T	1,662,600	29⅜	+ ⅜
Brit Steel	5,059,600	11⅛	---	Motorola	1,662,500	39⅞	+ ⅛
Nabisco RJR	3,472,800	90⅞	+ ⅛	Gen Elec	1,474,400	44¼	+ ⅞
Lilco	2,509,300	13¼	− 1½	Zayre	1,448,800	25⅝	− ⅛
Texas Utilities	2,095,900	28⅛	+ ⅛	IBM	1,376,600	120⅞	+ 1⅝

Base values of all indices are 100 except NYSE All Common – 50; Standard and Poor's – 10; and Toronto Composite and Metals – 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable.

International indices

	Dec. 6	Dec. 5	Dec. 2	Dec. 1	1988 High	1988 Low
AUSTRALIA						
All Ordinaries (1/1/80)	1459.3	1447.2	1450.6	1456.5	1657.8 (9/8)	1170.7 (10/2)
All Mining (1/1/80)	667.2	663.6	660.0	672.7	847.8 (9/8)	532.4 (10/2)
AUSTRIA						
Credit Aktien (30/12/84)	219.70	220.10	221.30	220.50	225.48 (4/11)	163.98 (11/2)
BELGIUM						
Brussels SE (1/1/80)	5347.80	5324.60	5338.20	5355.70	5393.00 (24/11)	3608.35 (4/1)
DENMARK						
Copenhagen SE (3/1/83)	261.07	258.30	256.36	254.89	261.07 (6/12)	180.68 (4/1)
FINLAND						
Unitas General (1975)	(c)	743.0	744.4	744.6	772.1 (8/8)	530.6 (15/1)
FRANCE						
CAC General (31/12/82)	389.7	391.2	(u)	392.3	397.2 (9/11)	251.3 (29/1)
Ind. Tendance (31/12/87)	150.8	149.6	150.0	150.7	153.4 (4/11)	89.7 (29/1)
GERMANY						
FAZ Aktien (31/12/58)	534.47	529.96	526.56	529.54	542.21 (27/10)	396.40 (29/1)
Commerzbank (1/12/53)	1603.2	1589.9	1579.3	1591.2	1641.60 (27/10)	1207.9 (29/1)
DAX (30/12/87)	1287.94	1282.23	1275.78	1277.98	1314.98 (28/10)	931.18 (28/1)
HONG KONG						
Hang Seng Bank (31/7/64)	2676.59	2671.21	2667.26	2668.03	2772.53 (12/7)	2223.56 (8/2)
ITALY						
Banca Com. Ital. (1972)	575.83	582.41	585.25	582.36	593.43 (9/11)	423.91 (9/2)
JAPAN**						
Nikkei (16/5/49)	29669.38	29614.68	29532.25	29541.46	29669.38 (6/12)	21217.04 (4/1)
Tokyo SE (Topix) (4/1/68)	2295.24	2289.57	2283.25	2282.50	2295.24 (6/12)	1690.44 (4/1)
NETHERLANDS						
ANP-CBS General (1970)	275.6	271.6	272.8	273.4	285.8 (26/10)	205.7 (4/1)
ANP-CBS Industrial (1970)	243.3	238.6	240.4	241.0	252.6 (31/10)	157.9 (11/1)
NORWAY						
Oslo SE (4/1/83)	427.18	426.62	426.00	421.16	427.18 (6/12)	327.78 (28/1)
SINGAPORE						
Straits Times Ind. (30/12/66)	996.14	993.16	999.37	1003.47	1177.87 (8/8)	833.68 (4/1)
SOUTH AFRICA						
JSE Gold (28/9/78)	1386.0♣	1386.0	1352.0	1367.0	1451.0 (7/7)	1154.0 (4/5)
JSE Industrial (28/9/78)	1882.0♣	1873.0	1864.0	1864.0	1869.0 (2/11)	1387.0 (12/2)
SPAIN						
Madrid SE (30/12/85)	(c)	275.66	276.89	280.66	301.63 (15/6)	225.50 (4/1)
SWEDEN						
Jacobson & P. (31/12/56)	3331.20	3282.80	3258.86	3255.27	3331.20 (6/12)	2148.5 (4/1)
SWITZERLAND						
Swiss Bank Ind. (31/12/58)	583.3	580.5	581.9	585.3	585.3 (1/12)	466.6 (13/1)
WORLD						
M.S. Capital Intl. (1/1/70)	(u)	492.2	488.5	490.8	492.2 (5/12)	401.0 (21/1)

**Saturday Dec. 3: Japan Nikkei 29665.50 and TSE 2295.16

♣ Subject to official recalculation.

Base values of all indices are 100 except Brussels SE and DAX – 1,000 JSE Gold – 255.7 JSE Industrials – 264.3 and Australia. All Ordinary and Mining – 500; (c) Closed. (u) Unavailable.

TOKYO - Most Active Stocks

Tuesday 6 December 1988

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Kobe Steel	81.4m	755	+2	Marubeni	29.1m	795	+8
Kawasaki Steel	54.9m	1,090	+20	Sumitomo Metal	22.4m	762	-9
Mitsubishi Elec	48.0m	1,030	+30	Mitsui Mining	21.3m	743	uch
NKK	31.2m	960	+12	Mitsubishi Cable	20.4m	980	+51
Nippon Steel	29.2m	833	-2	Mitsubishi Heavy Ind	20.2m	1,070	uch

3pm prices December 6

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
		— A—A—A —								
27⅞	14⅛	AAR	.44	1.9	16	247	23¼	22⅞	23	+ ⅜
10⅛	8¾	ACM n				476	9½	9⅛	9¼	
12⅛	10¾	ACMIn	1.26a	12.		583	11	10⅞	10⅞	− ⅛
10⅛	10	ACM M n				250	10⅛	10	10	− ⅛
12⅛	10⅜	ACMSc	n1.26	12.		964	10⅝	10⅜	10⅝	+ ⅛
10⅛	8⅝	ACMSp	n1.01a	11.		534	8⅞	8¾	8⅞	+ ⅛
5⅞	2⅞	AMCA	.12e	3.6		33	3⅜	3¼	3⅜	+ ⅛
6⅛	3¾	AM Intl				432	4¼	4⅛	4⅛	
23¼	18¼	AM Int pf	2	9.3		25	21½	21⅜	21½	+ ⅛
54¼	28¾	AMR			9	3939	u55	53⅞	53¾	− ¼
9½	5⅜	ARX			10	106	5⅞	5¾	5¾	
54½	35¼	ASA	3a	7.6		307	39⅞	39¼	39⅜	− ⅛
20¼	11⅜	AVX	.12e	.7	11	63	16¼	15⅞	16¼	+ ¼
52⅜	42⅝	AbtLab	1.20	2.6	15	3336	46⅞	46¼	46¾	+ ¼
21¾	15⅛	Abitibi g	1			38	16⅛	16	16	
13⅞	7½	AcmeC	.40	4.8		51	8⅜	8⅛	8¼	
8⅞	5⅞	AcmeE	.32b	5.4	26	9	6	5⅞	5⅞	− ⅛
28½	13½	Acuson			23	285	24⅞	24½	24½	− ⅛
17	14½	AdaEx	1.82e	12.		86	14⅞	14¾	14¾	
16⅞	7⅛	AMD			14	3114	7⅞	7½	7⅝	− ⅛
43½	28¾	AMD pf	3	9.8		2	30½	30½	30½	+ ¼
8½	4¼	Adobe				194	7	6⅝	6⅞	− ⅛
18½	16⅛	Adob pf	1.84	11.		17	17⅛	17⅛	17⅛	+ ⅛
21¾	19¼	Adob pf	2.40	12.		5	20½	20½	20½	
9¼	5⅞	Advest	.12	1.7	21	173	7	6⅞	6⅞	
52½	39½	AetnLf	2.76	5.8	8	510	48	47⅝	47⅞	− ⅛
34¼	20½	AflPb s	.22	.7		508	31⅛	30⅝	31	− ¼
18⅝	13	Ahmans	.88	5.5	9	1450	16⅞	16⅛	16⅛	− ⅛
4⅞	1⅞	Aileen				10	3⅝	3⅝	3⅝	− ⅛
53⅜	31	AirPrd	1.20	3.0	10	490	40⅛	39⅞	39⅞	− ¼
19¾	11½	AirbFrt	.60	3.2	19	82	18⅞	18½	18¾	+ ¼

Continued on Page 51

NYSE COMPOSITE PRICES

Continued from previous Page

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
10¾	8⅝	QstVl	1	9.6		57	10½	10⅜	10⅜	– ⅛
8⅞	5⅛	QstVC	.08			235	8½	8¼	8½	+ ¼
35⅝	29⅞	Questar	1.88	5.8	41	69	32½	32⅜	32½	+ ⅛
14½	10	QkRelly	.24a	2.2	6	25	10⅞	10⅞	10⅞	
		– R – R – R –								
12⅞	4½	RBInd				24	11⅞	11⅝	11⅝	
94½	49¾	RJR Nb	2.20	2.4	16	24915	91⅞	91	91¼	+ ⅜
119½	100½	RJR pf	11.60	11.		5	104	104	104	+ ⅞
11⅛	5⅜	RLC	.20	1.8	8	101	11⅛	10¾	11⅛	+ ¾
12½	7¼	RLI Cp.	.36	4.8	6	16	7⅞	7½	7½	– ⅛
6⅞	3½	RPC			17	78	5⅜	5⅞	5½	
31⅞	29⅝	Racal n				674	30½	30	30	– ⅛
1⅛	5-16	Radice				109	9-16	½	½	
89⅞	60	RalsPur	1.50	1.9	14	1570	78¾	77¾	78¼	+ ½
10¼	5⅛	Ramad				1729	9	8⅝	9	+ ⅛
6½	3⅝	RangrO			61	141	5¼	5⅛	5⅛	– ⅛
54¼	33⅝	Raycm	.32	.9	11	970	36⅛	35½	35¾	+ ⅛
12½	8⅝	RJamFn	.16b	1.6	10	35	10	9⅞	10	+ ⅛
21⅝	14⅞	Rayonr	2.60	14.	6	40	19¼	19	19¼	+ ⅛
8½	2¾	Raytch	.05e	1.7		33	3	2⅞	2⅞	
73⅞	57¼	Raythn	2	2.8	10	1318	70½	70⅛	70½	+ ¼
2½	½	ReadBt				441	11-16	½	11-16	+ 3-16
6⅛	1½	RdBat pf				16	1⅝	1½	1⅝	
8⅞	1⅞	RdBt pfA				8	2	2	2	
19	15¼	REIT	1.34	8.2	15	46	16⅛	16⅛	16⅛	+ ⅛
16½	14	RltRef	1.72	12.	8	13	14¼	14½	14½	– ¼
11⅞	9½	RecnEq			30	298	10⅞	10⅝	10⅝	+ ⅛
10⅛	5⅛	Redam	.36	3.7		225	9⅞	9⅝	9⅞	+ ⅛

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
11⅞	10⅛	StMSe	1.12a	11.		14	10⅝	[illegible]	[illegible]	[illegible]
6	3	Staego	.09t	2.2		1	4	[illegible]	[illegible]	[illegible]
12¾	8¼	StriBcp	.80	7.7	12	72	10	[illegible]	[illegible]	[illegible]
17¾	14⅝	StrlChl n			4	90	15	[illegible]	[illegible]	[illegible]
12⅞	10⅛	StlVG pr	1	9.1		y100	11	[illegible]	[illegible]	[illegible]
10	5⅞	Stifel				147	2	[illegible]	[illegible]	[illegible]
73¾	59	StoneW	2.40	3.4	14	15	71	[illegible]	[illegible]	[illegible]
39½	19	StoneC s	.36	1.2	6	x2215	30	[illegible]	[illegible]	[illegible]
6⅞	5	StonRs				190	5	[illegible]	[illegible]	[illegible]
13¾	10⅛	StorEq	1.40	13.	11	64	11	[illegible]	[illegible]	[illegible]
2⅞	1⅛	StorTch			15	9114	1	[illegible]	[illegible]	[illegible]
18¾	12	StratMt	1.92e	14.	7	55	13½	[illegible]	[illegible]	[illegible]
35¼	13¾	StridR s	.80	2.6	14	161	31	[illegible]	[illegible]	[illegible]
8⅛	6⅛	SuavSh				220	7	[illegible]	[illegible]	[illegible]
8⅞	6⅝	SunDis	1.10e	12.	9	157	9	[illegible]	[illegible]	[illegible]
18⅞	6⅝	SunEl	.05e	.3	66	94	14	[illegible]	[illegible]	[illegible]
17⅞	11⅛	SunEng	1.25e	11.		158	12½	[illegible]	[illegible]	[illegible]
28	23⅛	SunEx	pf1.20	4.5		421	26	[illegible]	[illegible]	[illegible]
33⅞	29	SunCo	pf1.80	5.5		865	32	[illegible]	[illegible]	[illegible]
58	36	Sundstr	1.80	3.6		175	50	[illegible]	[illegible]	[illegible]
5⅛	3½	SunMn				339	3	[illegible]	[illegible]	[illegible]
9¼	8	SunM	pf1.19	14.		49	8	[illegible]	[illegible]	[illegible]
24½	17½	SunTrst	.76	3.6	9	605	21	[illegible]	[illegible]	[illegible]
28⅞	16¼	SupValu	.50	2.2	14	1053	23	[illegible]	[illegible]	[illegible]
27⅛	11½	SybilTc s			17	546	18	[illegible]	[illegible]	[illegible]
12⅝	7⅞	SymsCp			10	3	10	[illegible]	[illegible]	[illegible]
43½	28⅞	Syntex	1.30	3.3	15	4067	39	[illegible]	[illegible]	[illegible]
37⅛	23⅛	Sysco	.26	1.0	18	319	[illegible]	[illegible]	[illegible]	[illegible]

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
50¼	45	Xerox pf	4.13	8.9		10	46⅝	46⅜	46⅝	+ ⅛
38⅝	19½	XTRA	.72	2.1	15	20	35	34½	35	
29¼	19⅝	XTRA pf	1.94	7.0		8	27⅝	27⅝	27⅝	
59¾	20	Yorkin			15	132	55	53⅝	55	+1⅛
3⅞	2⅛	Zapata				348	2½	2⅜	2½	+ ⅛
27⅛	13⅝	Zayre	.40	1.6	171	6513	25⅞	25⅝	25⅝	
15½	8¼	Zemex	.40	3.2	16	13	12⅝	12¼	12⅝	+ ½
30	13⅛	ZenithE				1668	18⅞	17½	18⅛	– ⅝
10⅛	9½	Zenia n	.60e	6.0		128	10	9⅞	10	+ ⅛
3⅞	1	vjZenLb				400	2⅛	2	2	
21⅝	13⅛	ZenNt	.80b	5.0	7	19	16⅛	16	16⅛	– ⅛
17¼	11¾	Zero	.44	2.6	14	26	16⅞	16⅝	16⅝	
29	15½	Zurnin	.68	2.4	17	189	28½	28	28⅛	+ ⅛
11⅛	8⅞	Zweig	1.04	10.		189	10⅛	10⅛	10⅛	+ ⅛
10⅛	9¼	ZweigT	n.16e	1.8		x1387	9⅛	d 9	9⅛	– ⅛

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration.

a-dividend also xtra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE PRICES

3pm prices December 6

OVER-THE-COUNTER

Nasdaq national market, 3pm prices December 6

Stock	Div.	Sales 100s	High	Low	Last	Chng
WolvEx		500	6¼	6	6¼	
Worthg	.44	15	239	22	21½	22 + ⅛
Wyman	.60	14	3	14½	14½	14½
– X – Y – Z –						
XL Dta		16	431	27¼	25¾	26¼ + ½
XOMA			589	13¾	13	13½ + ⅝
X-Rite s		14	130	9½	9	9¼ – ⅛
Xicor		12	884	7⅞	7½	7⅝ – ⅛
Xyvan			74	4⅛	4⅛	4¼ + ⅛
YelowF	.70	20	749	33⅛	32½	32⅝ – ½
ZionUt	1.44		43	23½	22⅞	22⅞ – ⅝

AMERICA

Dollar and bond rise supports Dow

Wall Street

FEATURELESS and quiet trading left equities moving only modestly higher yesterday, building on the gains achieved on Monday, *writes Janet Bush in New York.*

At 2pm, the Dow Jones Industrial Average was quoted 2.31 points higher at 2,126.07 on moderate volume of 91m shares. On Monday, the index had gained 31.48 points, taking it to the highest level for about a month.

The rise yesterday morning was more tentative and more gradual and there did not appear to be much genuine interest. One factor which dragged the Dow up modestly was a decent rally in the bond market which registered gains in the long end of almost a full point at midsession yesterday.

There was little news to motivate trading yesterday and it is difficult to discern any particular trend.

Mr Newton Zinder, technical equity strategist at Shearson Lehman Hutton, noted in his daily market report that the quality of Monday's rally left a lot to be desired. He said that all the market's gains had occurred in the first two hours of trading with prices moving sideways after that.

"The lateral action in the final four and a half hours of trading can be labelled as churning, a phenomenon where the buying and selling is evenly balanced but one which often terminates a move. Since that move has been an up one, we have the possibility that the advance may have run into a roadblock," said Mr Zinder.

The modest gain at the outset appeared to be mostly a response to Monday's sharp gain which triggered some follow-through buying. However, that interest then seemed to peter out.

A modestly higher dollar helped both bonds and equities. The dollar was traded at the New York midsession at its day's highs against the Japanese yen at Y121.75 compared with an earlier low of Y121.27 and at DM1.7340 compared with DM1.7220 earlier.

Both the equity and bond markets appear to have derived some benefit this week from the lack of action from the US Federal Reserve on raising its discount rate. In some ways, this is difficult to understand.

First, most traders in both markets believe the discount rate will be raised but that this is just a matter of timing. Little long-term comfort can be derived from the Fed's delay.

Second, in a broad economic sense, markets should in theory react positively to evidence that the Fed will actively fight a build-up in inflation in the economy which showed considerable economic strength last month.

Overall, it appears that markets are this week simply recouping the losses incurred last Friday when strong November employment figures were released. It is likely that further progress will be inhibited.

The stocks of the four companies which on Monday filed with the Securities and Exchange Commission to issue "unbundled stock units" were mixed yesterday after sharp rises on Monday. American Express was quoted $⅜ higher at $28⅜, Pfizer was down $¼ at $57⅞, Sara Lee dipped $⅛ to $45¼ and Dow Chemical added $⅛ to $86¼.

SmithKline Beckman once again appeared to be in play because of takeover speculation. It rose $1⅞ to $48¾ yesterday. Rorer Group also moved $1⅜ higher to $46⅜ as takeover rumours revived. This time, speculation centred on Britain's Beecham Group as a possible suitor.

Long Island Lighting dropped $1⅞ to $12⅝, adding to its $1⅛ loss on Monday after the company and a former executive were found guilty of lying to obtain rate increases for the utility.

Prime Computer added $⅛ to $17⅝ after the chairman of MAI Basic Four said that his company would seriously consider raising its $20-a-share bid for the company.

Canada

WEAKNESS in gold mining stocks pulled Toronto lower by midsession. Investors remained wary about interest rates, amid talk that the Bank of Canada could raise its rate by up to ½ point tomorrow.

The composite index declined 5.4 to 3,305.9 on volume of 8.3m shares.

In the gold sector, Placer Dome declined C$⅛ to C$16⅞, Teck fell C$⅛ to C$16⅞ and American Barrick slipped C$⅛ to C$20⅝.

On the base metal list, Inco fell C$⅛ to C$39 and Falconbridge declined C$⅛ to C$23⅞.

SOUTH AFRICA

GOLD shares closed mixed in low volume in Johannesburg as the bullion price slipped.

Vaal Reefs lost R2 to R275, Southvaal was unchanged at R121, Western Deep rose R1 to R112 and Driefontein gained 50 cents to R35.50.

In the platinum sector, Rustenburg picked up 25 cents to R50.25.

Zurich sheds its mousy character

A short-term view is now seen as essential, writes Hilary de Boerr

THE SWISS stock market, long regarded as safe but dull, has changed its spots over the past three weeks. Once a relative stranger to rumours, speculation and the concomitant sharp share price movements, it now has investors on their toes.

Nestlé's bolt from the blue on November 17, when it said foreigners would be allowed to buy its registered shares for the first time, has changed the face of a market where price/earnings ratios and earnings growth were paramount in investment decisions.

Typically regarded as a home for longer-term investment, Zurich has been turned into a trading market, where very short-term considerations are dictating events.

Salesmen who used to spend only a short time each day on Swiss blue chips such as Nestlé and Ciba-Geigy, are now poring over share price charts to find the next best bet. Speculation abounds about which company might join Nestlé in opening up its registered stock to foreigners, and about possible moves by Swiss banks to break a 1961 agreement not to sell such shares overseas. (Swiss bankers meeting on Monday agreed to stick with the status quo for the time being, but there is evidence that registered stock is increasingly being offered overseas.)

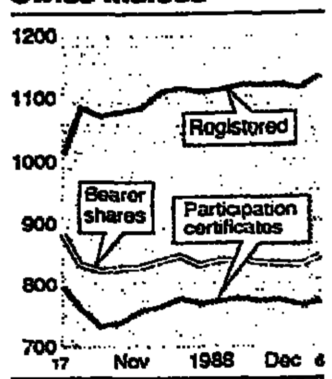
Since the announcement, Nestlé registered stock has jumped by 40 per cent while its bearer shares have dropped by 27 per cent. Other stocks have followed suit, though by somewhat smaller amounts.

While things have calmed down from the hectic trading seen in the first week after the news, speculation about liberalisation still reigns over fundamentals when it comes to investment decisions. The economic fundamentals in Switzerland are particularly favourable, but investors are worried about being left with bearers that could plummet on further liberalisation moves.

Since November 17, the index for registered shares has risen by 12 per cent, while that for bearer shares has dropped by 5 per cent. Participation certificates have meanwhile fallen by about 3 per cent, while the market as a whole is little changed.

Mr Jonathan Dicker, Swiss analyst at James Capel, the London brokerage, is very cautious about Zurich, post-Nestlé. "Trying to second guess the market at the moment is a very dangerous strategy to play," he says. "Until those foreigners who were stung recover their confidence, I think it will be a very volatile market and you've got to be extremely careful you don't catch one of the swings of volatility the wrong way round."

Swiss indices



Swiss companies generally offer three types of shares to investors: registered, which are usually available only to domestic investors and account for most of a company's equity; bearers, which offer a vote and are available to foreigners, but are in shorter supply; and participation certificates, with no vote.

The situation throws up a complexity of trading opportunities – enhanced by Nestlé's move – because of the relationships between the prices of the different type of stock. As a rule, bearers trade at a premium to registereds, because of short supply and availability to foreigners, and at a premium to participation certificates, because the former have a vote. The size of the premiums can vary widely between different companies.

In insurances, Winterthur registered shares have risen by about a fifth since November 17 while its bearers have fallen by the same amount – reducing the bearers' premium to 33 per cent from 98 per cent. Zurich Insurance registereds have soared 17 per cent and its bearers plummeted by 19 per cent. Ciba-Geigy registereds are up by about the same amount that the bearers have fallen, around 16 per cent.

Most analysts expect further developments in the liberalisation of stock over the next couple of years. They point to the fact that most Swiss companies have simply said they would not do as Nestlé did – and who would, given the havoc it wreaked? That leaves open the option of liberalising in a different manner from Nestlé, which gave no warning of its intentions and limited the individual foreign shareholding to a maximum of 3 per cent of its registered stock.

For now, it is cheerio to boring old Switzerland and hello to speculative trading. For the investor, says Mr Tom Bannatyne of Warburgs, is "walking a delicate minefield between fundamental values and adverse sentiment," with the latter carrying the day.

ASIA PACIFIC

Nikkei edges to another high as turnover swells

Tokyo

INVESTORS were not convinced by Wall Street's overnight strength and share prices closed only moderately higher although volume showed significant improvement, *writes Michiyo Nakamoto in Tokyo.*

The Nikkei average did, however, post another all-time high of 29,669.38, a rise of 54.70. The closing figure was substantially below the day's peak of 29,767.63 and closer to the low of 29,619.44. Rises outnumbered falls by 544 to 338 and 181 issues were unchanged.

Volume increased sharply to 1.07bn shares compared with 652m on Monday. The Topix index of all listed shares added 5.67 to 2,295.24 and, in London, the ISE/Nikkei 50 index gained 7.11 to 1,870.76.

Although the mood was still fairly positive, there was little in the way of incentives to spark much interest. Wall Street's rise on low volume failed to inspire more than short-lived bullishness, reflected in morning gains. The Nikkei was up 126.08 at 29,740.76 by the morning close. Much of that gain was soon lost in profit-taking.

There is little for investors to look forward to at the moment, other than the index reaching 30,000, said Mr Jonathan McClure of Schroder Securities. The corporate results season islargely finished and few companies are likely to make dramatic announcements before the new year. Trading was widely scattered and generally featured the same themes that have dominated the market recently, such as assets and low prices.

Non-life insurance companies were selected for their assets. Dowa Fire and Marine, which is relatively cheap, gained Y35 to Y975, while Nichido Fire and Marine was seen as a laggard and firmed Y70 to Y1,160.

Electricals featured because investors felt they had underperformed the market. Sony rose Y120 to Y6,630 and Pioneer Electronic added Y70 to Y3,190.

Other popular underperformers included Japan Battery, up Y100 at Y931, and Mitsubishi Cable Industries, which gained Y51 to Y980.

With prices having risen strongly over the past few weeks, the Y800 to Y1,000 range is seen as being cheap.

Interest in steels recovered. Kobe Steel was the most heavily traded issue on 61.4m shares, rising Y2 to Y755. Kawasaki Steel, second in volume, gained Y20 to Y1,090.

Interest in machineries was sparked by speculation that Japan's third quarter gross national product figures, due yesterday afternoon, would show an increase. Amada, a leading builder of metal-working machines, and Wasino Machine, a maker of machine tools and presses that belongs to Amada, both rose Y20 to Y1,200 and Y695 respectively.

Mitsubishi Motors Company (MMC), the most heavily traded issue on Monday, when it rose Y590 above its pre-listing price on its first day of trading, lost Y180 to Y1,260 in profit-taking. It was considered to have risen too steeply on Monday and that its price should be comparable with that of other similar-sized car producers.

In Osaka, interest in incentive and asset-backed issues lifted the OSE average 116.46 to 27,735.03.

Roundup

THE SHARP improvement on Wall Street on Monday and a recovery in Tokyo underpinned gains in the Asia Pacific region, but the mood remained hesitant in the bigger markets.

AUSTRALIA had a thin day's trading but ended higher in response to Wall Street's gains. A total of 88.8m shares worth A$179m changed hands and the All Ordinaries index rose 12.1 points to 1,459.3.

JN Taylor was active, with 9.43m shares dealt, worth A$20.7m, rising 12 cents to A$2.20. Bond Corp, which is bidding for the remaining stock in JN Taylor – it already owns about 19 per cent – was steady at A$1.70.

HONG KONG traded in a narrow range for the second day running, ending with slight gains in active turnover.

Utilities proved the strongest sector, with Hongkong Telecom up 5 cents at HK$4.87 and China Light 10 cents brighter at HK$13.60.

The Li Kashing group attracted further interest amid speculation about a privatisation of Cavendish International. Cheung Kong gained 10 cents to HK$8.15 in active trading of 12m shares worth HK$98m, with rumours of heavy Taiwanese buying. Hutchison rose 5 cents to HK$8.85 and Cavendish, which denied the privatisation talk, eased 12½ cents to HK$3.2¼.

SINGAPORE saw volume and share prices pick up modestly, with the Straits Times industrial index adding 2.98 to 996.14. Turnover reached 13.6m shares against Monday's 11m.

SEOUL continued to rise sharply in late trading after the composite index reached yet another record high on Monday of 848.46. Constructions, paper and transport stocks and wholesalers led gains. The closing index was unavailable.

TAIWAN surged upwards after three days of steep losses, with the weighted index climbing 303.74 to 6,614.36, wiping out much of the previous 528-point fall. News that the finance ministry had approved capital increases by Hua Nan Commercial Bank, First Commercial Bank and Chang Hwa Commercial Bank helped the recovery.

EUROPE

Scandinavian bourses vie for centre stage

THE Scandinavian markets stood out as star performers in Europe yesterday. Frankfurt saw healthy volumes for a change, while Madrid was closed for constitution day, *writes Our Markets Staff.*

FRANKFURT shook off its recent torpor, with volume rising to DM3.45bn worth of German shares as profit-takers moved in towards the close after a strong start. The strength of activity again caused some surprise, although the market was underpinned by such positive factors as Wall Street's 31-point advance on Monday, the steady dollar and a firm bond market.

The FAZ index reflected early gains with a 4.51 rise to 534.47 but the DAX ended the session with only a slight 5.71 advance to 1,287.94 in a market with few sellers.

VW topped the active stocks, rising DM1.30 to DM328 on DM349m worth of shares. Buying interest has been stimulated by brokers' recommendations and the breaching of chart resistance points at DM320 and DM324 yesterday. But the share struggled yesterday, coming off a high of DM332.30.

Steel and engineering stocks were also popular again. Mannesmann rose DM4.90 to DM199.50 and Thyssen DM2.90 to DM184.50. Banks attracted attention, with Deutsche up DM8.50 at DM528, helped by a late small order.

PARIS managed to make up ground after a weak start, although trading remained thin. The CAC General index opened off 1.5 at 389.7 and the OMF 50 index closed the session up 1.88 at 406.48.

Ingenico, the maker and designer of hi-tech payment systems, saw one of the day's largest gains, rising FFr17.70, or 5.2 per cent, to FFr356.70. Canal Plus was a large faller, dropping FFr15 to FFr580, in a technical reaction to recent gains.

Publishing group Hachette climbed FFr9 to FFr259 after Monday's news of its capital raising programme worth $200m.

AMSTERDAM ended higher, boosted by the recovery in the London market, a strong opening on Wall Street and a firm dollar, but volume was below average at Fl 303m although well up on Monday. The CBS all-share index rose 1.2 to 100.5, with very few sellers, in common with Germany.

There were few new features, but steel stock Hoogovens remained popular, adding 40 cents to Fl 73. Distiller Bols gained Fl 4 to Fl 148.50 and Heineken, the brewer, put on Fl 1.50 to Fl 141 following their cooperation plans.

MILAN drifted down in thin trading in the run-up to Thursday's public holiday and the expiry of options next Monday. The Comit index fell 6.58 to 575.83 in turnover estimated at L120-L130bn. The telecommunications sector ended weaker in the wake of experts' proposals for the restructuring of Stet.

ZURICH saw improved turnover as switching between the different types of shares in individual companies continued. The Crédit Suisse index put on 2 to 510.7, helped by Wall Street's overnight firmness.

AUSTRIA finished slightly lower on the first day's trading of the Verbund, the electricity group which has been partly-privatised, becoming the bourse's largest quoted industrial stock. The Verbund rose Sch 6 to Sch 171 and the Crédit Aktien index eased 0.46 to 242.53. The Verbund is being sold in three staggered payments over two years, totalling Sch 365 in price.

STOCKHOLM rose strongly on institutional buying, with gains exaggerated by a shortage of stock. The Affärsvärlden General index climbed 14.2, or 1.5 per cent, to 986.6 in heavy trading worth SKr552m.

Mr Brian Knox, analyst at Kleinwort Grieveson Securities, said the market was anticipating a reasonably good flow of money into mutual funds from private investors at the end of the year and ignoring economic concerns such as inflation and overheating. The recently announced tax reform proposals were also continuing to have a positive psychological impact.

Atlas Copco, the engineering company, stood out with a SKr12 rise to SKr275 after lagging the sector.

OSLO reached its third consecutive high on optimism over the domestic economy, with the all share index edging up 0.22 to 309.91.

COPENHAGEN was led to new highs by a 7.9 point rise in the bank index, with the Copenhagen all-share index adding 2.77 to 261.07, *writes Hilary Barnes.* The bond market was also strong, with the benchmark 9 per cent 2006 mortgage bond rising a full point to 97.5 in late trading.

Rumours that the minority Government was close to winning a stable backing for the 1989 Finance Bill, due to go through parliament in mid-month, provided a strong start to trading. A survey showing export companies expect a strong sales increase next year, and statements from analysts predicting a further fall in bond yields, also helped.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	MONDAY DECEMBER 5 1988					FRIDAY DECEMBER 2 1988			DOLLAR INDEX		
Figures in parentheses show number of stocks per grouping	US Dollar Index	Day's Change %	Pound Sterling Index	Local Currency Index	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Local Currency Index	1988 High	1988 Low	Year ago (approx)
Australia (91)	144.39	+0.5	114.48	109.29	4.97	143.61	114.69	109.66	152.31	91.16	91.91
Austria (17)	98.61	+0.7	78.18	88.22	2.44	97.93	78.21	88.15	100.00	83.72	90.70
Belgium (63)	133.57	+0.1	105.89	119.40	4.27	133.43	106.56	119.78	139.89	99.14	94.63
Canada (125)	122.91	+0.8	97.45	105.55	3.35	121.92	97.36	104.83	128.91	107.06	102.59
Denmark (39)	157.96	+1.3	125.23	142.49	2.13	155.92	124.51	141.44	157.96	111.42	109.41
Finland (26)	137.52	–1.7	109.03	117.49	1.43	139.83	111.67	119.82	139.83	106.78	–
France (130)	110.64	+0.0	87.72	102.22	3.18	110.67	88.38	102.59	112.05	72.77	78.71
West Germany (102)	87.35	+0.9	69.25	78.29	2.38	86.54	69.11	77.79	88.21	67.78	72.55
Hong Kong (46)	111.01	+0.0	88.01	111.17	4.64	111.01	88.65	111.20	111.86	84.90	73.92
Ireland (18)	131.71	+0.0	104.42	119.66	4.21	131.66	105.15	119.85	144.25	104.60	94.59
Italy (98)	86.35	–0.2	68.46	82.19	2.46	86.55	69.11	82.67	86.73	62.99	76.37
Japan (456)	190.93	+0.3	151.37	146.58	0.51	190.45	152.09	146.15	190.93	133.61	137.55
Malaysia (36)	139.45	–0.5	110.56	143.59	2.95	140.08	111.87	144.24	154.17	107.83	93.76
Mexico (13)	172.54	–3.5	136.79	431.05	1.19	178.76	142.76	446.50	182.24	90.07	118.72
Netherland (38)	109.50	+0.5	86.81	97.18	5.07	108.99	87.04	97.05	111.00	95.23	90.52
New Zealand (25)	68.34	–0.5	54.18	55.33	7.13	68.67	54.84	56.02	84.05	64.42	75.09
Norway (25)	130.34	+1.4	103.34	113.67	2.55	128.59	102.69	112.97	132.23	98.55	95.51
Singapore (26)	118.49	–0.3	93.94	106.01	2.56	118.83	94.90	106.59	135.89	97.99	81.65
South Africa (60)	125.60	–0.1	99.58	99.83	4.66	125.75	100.43	98.17	139.07	98.26	134.26
Spain (42)	149.21	–0.4	118.30	126.94	3.22	149.80	119.63	128.18	164.47	130.73	115.93
Sweden (35)	140.44	+1.6	111.34	124.58	2.29	138.17	110.34	122.98	140.44	96.92	93.00
Switzerland (57)	79.15	+0.0	62.76	70.91	2.39	79.18	63.23	71.18	86.75	74.13	75.26
United Kingdom (318)	137.71	+0.5	109.18	109.18	4.83	137.03	109.43	109.43	141.51	120.66	117.00
USA (577)	111.92	+1.0	88.74	111.92	3.64	110.78	88.46	110.78	115.55	99.19	93.11
Europe (1008)	114.83	+0.4	91.04	97.71	3.80	114.39	91.35	97.84	116.61	97.01	94.62
Pacific Basin (680)	185.75	+0.3	147.27	143.45	0.74	185.28	147.96	143.08	185.75	130.81	133.41
Euro-Pacific (1688)	157.36	+0.3	124.76	125.32	1.65	156.90	125.30	125.14	158.08	120.36	117.92
North America (702)	112.50	+1.0	89.20	111.55	3.63	111.36	88.93	110.43	116.07	99.78	93.61
Europe Ex. UK (690)	100.41	+0.3	79.61	90.79	3.00	100.11	79.95	90.84	101.29	80.27	80.74
Pacific Ex. Japan (224)	123.86	+0.3	98.20	104.04	4.81	123.55	98.67	104.36	128.27	87.51	83.36
World Ex. US (1886)	155.85	+0.3	123.56	124.54	1.72	155.38	124.09	124.33	156.39	120.26	117.57
World Ex. UK (2145)	139.14	+0.5	110.31	121.40	2.05	138.41	110.53	120.81	139.14	111.77	107.24
World Ex. So. Af. (2403)	139.07	+0.5	110.26	120.37	2.28	138.35	110.48	119.86	139.07	113.26	107.92
World Ex. Japan (2007)	113.99	+0.7	90.37	106.40	3.75	113.15	90.36	105.83	115.54	100.00	93.99
The World Index (2463)	138.99	+0.5	110.20	120.23	2.30	138.27	110.42	119.72	138.99	113.37	108.09

Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local).

Latest prices were unavailable for this edition.

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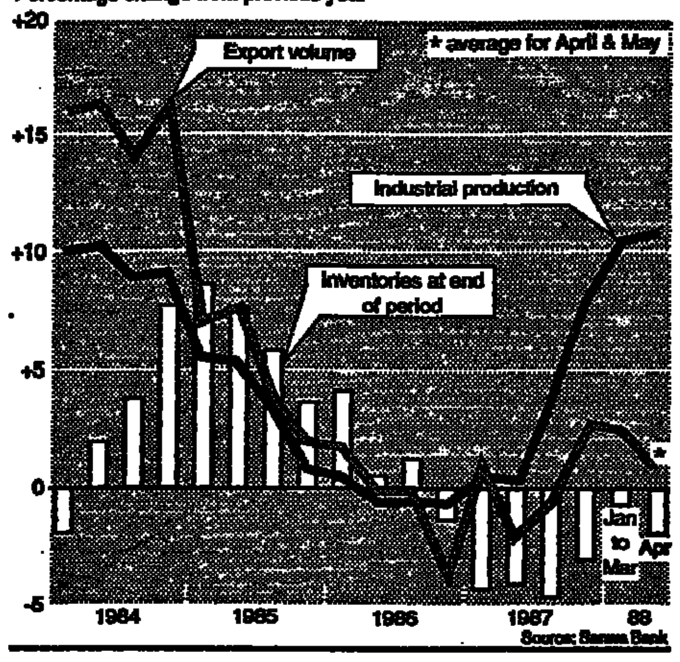
SECTION III

FINANCIAL TIMES SURVEY

Industrialists in Japan are more optimistic about the future than at any time in the last decade, according to recent surveys. While growth shows no signs of petering out, analysts are inevitably asking how long it will last, says Stefan Wagstyl in Tokyo.

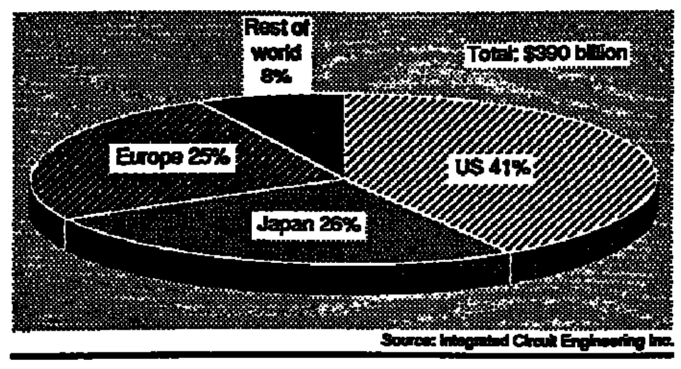
Key industrial indicators

Percentage change from previous year



Electronic equipment production

International comparisons - 1988 forecast



Source: Integrated Circuit Engineering Inc.

CHANGES IN JAPAN'S EXPORTS BY PRODUCT

	1987	1992	($ base %) 1987-92 (projection)
Electrical machinery	22.4	65.9	3.5
Non-electrical machinery	20.0	22.7	2.7
Automobiles	19.3	17.2	-2.3
Iron and steel	5.5	3.9	-1.6
Total (inc. others)	100.0	100.0	

Source: Industrial Bank of Japan, estimate.

Innovation in electronics is a vital factor in Japan's continuing industrial success. Companies have increased research spending to stay ahead of international competition. Pictured, above, a production line for laptop personal computers.

JAPANESE INDUSTRY

Winning the yen battle

JAPANESE INDUSTRY once feared it would be decimated by the rise of the yen. Today, three years after the yen started its relentless climb, those worries have evaporated in a huge surge in corporate investment, profit and confidence.

Manufacturing companies are in the throes of increasing investment by 25 per cent in the financial year to March 1989. Industrial groups' profits, which rose 30 per cent last financial year, are – according to one estimate – likely to increase by a further 28 per cent in 1988-89. Companies, which even a year ago blanched at the prospect of the yen trading at Y140 to the dollar, boast of their ability to cope with the yen at Y120.

Thanks to massive restructuring, industry has shifted the focus of its attention from exports to domestic markets. Companies are now reaping the rewards of a sustained expansion of the domestic economy which began in mid-1987 and shows little sign of stopping.

Meanwhile, exports, which were falling in volume terms last year, have staged a modest recovery in 1988, led by strong sales of electronics goods, especially microchips.

The record is so strong that it begs the question – *how long can it last?*

The answer seems to be that while industrial growth may slow down next year, only a massive external shock could knock industry seriously off course. Weaker companies, currently buoyed by the underlying strength of the economy, may be shaken out, but without inflicting serious wider damage.

However, the possibility of such a shock coming sooner, rather than later, haunts some Japanese economists, who are worried about the potential impact of a failure by the US to correct its budget and trade deficits. Nomura Research Institute says that while last year's plunge in equity markets was not followed by a recession, "the possibility of another crash is there."

But as far as solving its own problems is concerned, Japanese industry is more optimistic about the future then at any time since 1979, according to a Bank of Japan survey. Mr Naoya Takebe, a deputy general manager at Industrial Bank of Japan, says:"Perhaps you can say we are too optimistic at the moment but, even if growth slackens next year, it will still maintain a very good pace. So it's hard to be a pessimist."

The main reason for industry's optimism is the bouyant economic outlook. Fuelled by strong domestic demand, real economic growth should reach 5 per cent in the year to March, with 4.5 per cent or more in prospect for the 1989-90 financial year.

This was triggered by a Y6,000bn Government spending package launched in the depths of the depression in the summer of 1987. But a more sustained stimulus came from the rise of the yen, which greatly lowered the costs of imported raw materials.

According to the Government's Economic Planning Agency, in the two and a half years to March, 1988, these savings amounted to Y29,000bn. At the same time, interest rates and oil prices fell, reducing costs still further.

Japanese industry has been anything but a passive beneficiary of these shifts. The sense of crisis which hit Japanese boardrooms in 1986 generated a welter of corporate strategies designed to counter the negative side of the yen's strength:

■ **Cost-cutting:** Although, compulsory redundancy is virtually unknown among large Japanese companies, early retirement and re-deployment are common. Nippon Steel, for example, cut its workforce last year by 3,250 to 60,000. Meanwhile, big groups squeezed their suppliers. Nissan estimated that of Y130bn cost cuts made in the year to March 1988, a full Y90bn came from price cuts forced out of component makers.

■ **Overseas investment:** Japanese industrial capital is pouring into South East Asia, where the main attraction is lower labour costs, and, more especially into North America and Europe, where the prime motive is to get closer to markets and avoid trade disputes.

The Industrial Bank of Japan estimates that by 1992, Japan's motor manufacturers will have 25 per cent of their production abroad and electronics and electrical machinery companies 15 per cent. The banks says that these assembly industries, the core of Japanese industry, will push straightforward manufacturing operations overseas while keeping the more sophsticated functions in Japan.

■ **Moving up market:** The rising yen has attracted a growing tide of imports into Japan – including some produced by Japanese companies overseas, as well as the widely-publicised US-made Honda cars. Japanese companies have reacted by cutting domestic production of low-priced goods and increasing output of high-margin upmarket goods.

Growing consumer demand is opening up many possibilities – for example, sales of luxury cars are soaring in a trend called "the Cima phenomenon" after Nissan's Cima luxury saloon.

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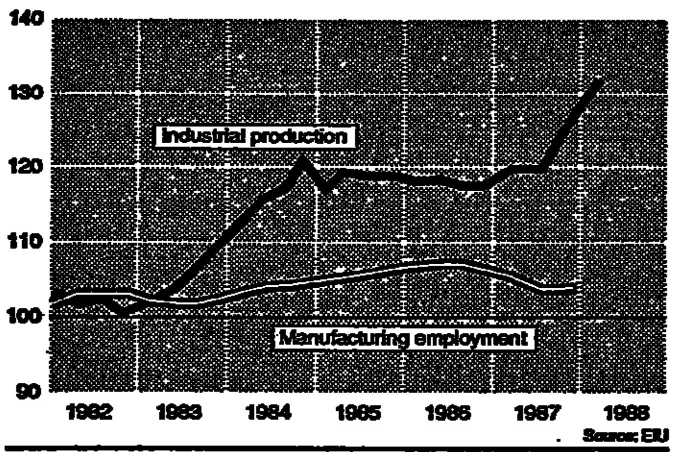
Output and employment

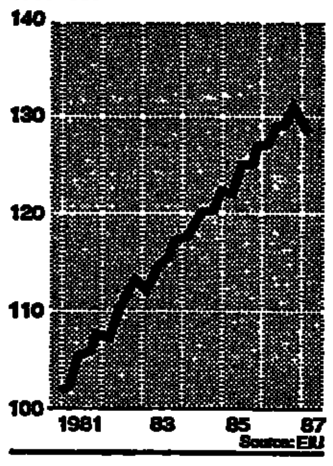
1980=100; Seasonally adjusted



Source: EIU

Earnings in industry

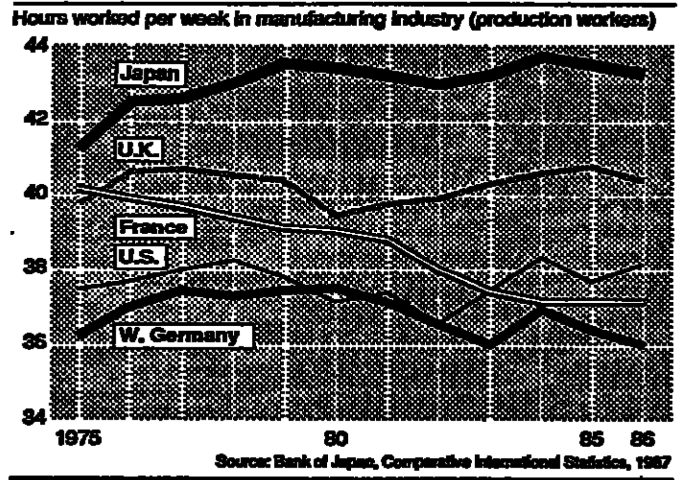
1980=100



Source: EIU

Working hours compared

Hours worked per week in manufacturing industry (production workers)



Source: Bank of Japan, Comparative International Statistics, 1987

CONTENTS

□ *Graphics by Bob Hutchieon and Graham Lever.*

Guy de Jonquières, international business editor, highlights manufacturers' moves to go further up-market

Strong shift towards higher value-added products

IN THE past three years, Japanese manufacturing industry has thrown itself into a breakneck effort to overcome the impact of the high yen which has been rewarded by a powerful recovery in corporate profits and the return of embarrassingly large trade surpluses.

Much of industry's renewed competitiveness has been achieved by a ruthless attack on costs. Efficiency has been further enhanced through product re-design and increased automation. Obsolete plant has been shut down, production has been moved offshore and huge pressure placed on suppliers to reduce their prices.

However, this flurry of activity, which has resulted in annual cost savings as high as 40 per cent in some export industries, is not the whole story. For Japan's industrial economy has also been undergoing a profound structural transformation, the implications of which may not yet be fully appreciated in the west.

Impressive as its efficiency gains have been, Japan cannot hope just to turn the clock back to the time when it was the world's low-cost manufacturer. With annual manufacturing wage levels now above those in the US, it must chart a new course to stay ahead of aggressive competitors in the Newly Industrialised Economies (NIEs) of east Asia.

The solution is to shift up-market into more sophisticated, higher value-added products – and it is being seized on enthusiastically. Increasingly, Japanese industry is moving away from commodity items which compete largely on price and into ones which rely on more intensive input of technology, skills and knowledge.

Put crudely, the country is moving decisively to bury its reputation as a mere imitator and is positioning itself as an innovator in major fast-growing industries. To facilitate this shift, it is committing increasing sums to basic research and stepping up its national development effort.

The move is away from commodity items which compete mainly on price and into ones needing more intensive input of technology and skills

This trend has already been developing for several years. Between 1975 and 1985, Japan increased its share of US patents from 8.8 per cent to 19.3 per cent, more than the total granted to British, French and West German applicants combined. A recent study by Venture Economics, an American consultancy, found that Japanese patents were cited more frequently by other patentees than those of any other country.

Two aims underlie Japanese companies' increased emphasis on research-intensive activities. One is to advance more rapidly towards the frontiers of technology in "blue-sky" areas such as superconductivity. The other is to breathe new life into established product lines and strengthen their position in existing markets.

As Dr Michiyuki Uenohara, an executive vice president of NEC, a leading electronics company puts it : "Innovating completely new markets is very time-consuming and costly. New businesses will have to be supported by commodity items for some time. So it is a question of feeding back new technologies into existing mature products."

The motor industry is following this maxim closely. With car ownership already at a relatively high level in Japan, major producers aim to expand sales by offering buyers technological improvements, such as four-wheel steering and electronic controls, which will tempt them to change their cars more often.

Since such features are reflected in higher prices, this trend is inevitably contributing to the move up-market. Leading manufacturers are now all competing hard for the luxury end of the car market and Nissan, the second biggest carmaker, attributes its improved financial performance last year entirely to the success of its newly launched top-of-the-range models.

In electronics, consumer products, once the mainstay of the industry, have fallen in the past five years from 30 per cent to 21.6 per cent of the industry's total output. This reflects a steady shift to offshore manufacture of mass-produced products, such as audio equipment and colour televisions, imports of which have been rising rapidly.

However, Japanese manufacturers do not propose to abandon consumer electronics, as US companies did in the 1970s when confronted with the Japanese challenge. Instead, they are concentrating on innovations such as high-definition television systems, miniature camcorders and Super-VHS format video recorders, which will command premium prices and call for technical virtuosity greater than their competitors in the NIEs – or in much of the west – can aspire to.

Increasingly, too, they are focussing on professional and industrial products, such as microchips, computer processors and peripherals, office machines and telecommunications equipment. Indeed, the growth of Japan's exports in the second half of this year was due almost entirely to increased sales of these products.

In a growing number of cases, exports by Japanese manufacturers have thrived because they are the dominant – even the sole – source of the products concerned. This is true of high-density dynamic random access memories (D-Rams) which are the most widely used category of chips, of facsimile machines and of low-end copiers.

For older industries, such as steel, textiles and heavy engineering, the opportunities for taking traditional activities up market are necessarily much more limited, though they are being exploited wherever possible.

In many cases, the focus has been on production techniques, rather than on the products themselves. The Industrial Bank of Japan (IBJ) calculates that investment on semiconductors per unit of output more than doubled between 1975 and 1985 in basic industries such as pulp and paper, chemicals, iron and steel and non-electrical machinery.

In most mature industries, however, higher added value has been sought by diversifying into new areas, which often seem quite unrelated to companies' existing businesses. Among steelmakers, Kobe Steel plans to move into biotechnology, Nippon Steel into information systems and NKK into electronics, while textiles makers are expanding into fields as diverse as plastics, foodstuffs and artificial kidneys.

It is too early to judge the commercial prospects for these ventures, which are often heavily influenced by companies' desire to avoid job losses. But whether or not they succeed, the recent shift in the composition and structure of Japanese industry seems set to continue.

According to the IBJ, production by both primary and secondary industries has been declining as a proportion of total output for a decade, and will fall further. The share of the two sectors, which together accounted for 58 per cent of output in 1980, is projected to be only 48 per cent by 1992.

Future growth will be heavily concentrated in the service sector, whose share of national output is due to rise to 51 per cent by 1992 from 40 per cent in 1980. Over the same period, its share of employment is expected to increase to 64 per cent from 60 per cent.

These trends reflect not only expected growth of sectors such as banking, transport and business services in response to domestic demand, but also a steady shift of emphasis in advanced industries such as electronics from manufacturing to service activity, as the value of knowledge-intensive software and systems increasingly outstrips that of basic hardware.

As Dr Uenohara's earlier remarks suggest, the transformation of Japan's industrial structure involves a delicate balancing act for companies, which must find a way to generate from existing activities the profits needed to fund the costs of new products.

Though much has been made in the past of the role of the Japanese government in the development of major industries, the cost of current investment to develop new technologies is being borne overwhelmingly by private industry. Indeed, privately-funded research and development (R&D), at 2.2 per cent of gross national product in 1985, is much the highest of any large industrialised country.

Privately-owned research laboratories have been proliferating in Japan – more than 30 have been established in the past four years – and the R&D budgets of some large companies, including Fujitsu and NEC, exceed 10 per cent of their annual turnover.

These investments in the future obviously offer immense opportunities to seize commanding positions at the forefront of technology. However, the commercial value of R&D is not measured by the amount of money spent on it but by the results it generates in the market. As the level of spending rises, the importance of obtaining those results grows.

In the past, many Japanese companies have innovated by showering the market with new products and then concentrating on those which proved most popular with consumers. However, such a haphazard approach is becoming increasingly impractical, because soaring developing costs are making the consequences of failure prohibitively expensive. Hence, innovation will have to be a much more tightly managed process in the future.

In tackling this challenge, Japanese companies can count on two important assets which set them apart from many of their western competitors. One is the sheer strength of

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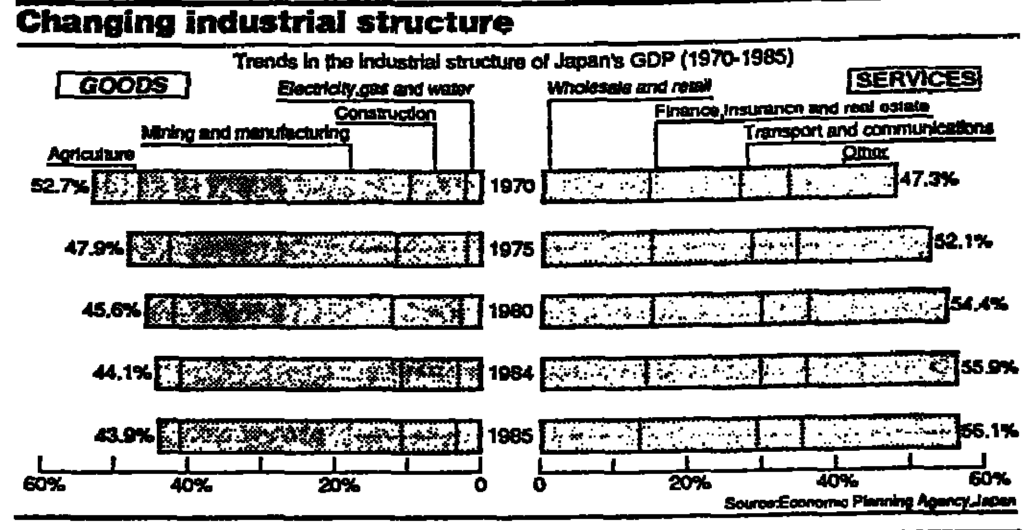
Changing industrial structure



RESEARCH COMPARISONS
Government R and D as % of GNP

	Japan	US	UK	W.Germany	France
1965	0.44	1.84	1.15	0.82	1.42
1970	0.48	1.47	1.15	1.02	1.22
1975	0.56	1.13	1.10	1.17	1.08
1980	0.60	1.11	1.08	1.15	1.03
1985	0.58	1.27	0.99	1.12	1.25
Govt R & D as % of total	19.4	46.8	42.6	39.6	53.5

Source: MITI

US PATENTS ISSUED 1987

Company	Number of patents
1. Canon	847
2. Hitachi	845
3. Toshiba	823
4. Gen Electric	779
5. Phillips	687
6. Westinghouse	652
7. IBM	591
8. Siemens	539
9. Mitsubishi Elec	518
10. RCA	504
11. Fuji Film	494

Source: Nihon Keizai; US Patent Office

INTERNATIONAL COMPARISONS: EXPORTS AND IMPORTS IN $M BY COMMODITY AND COUNTRY
On a custom clearance basis, exports fob, imports cif, 1986

		Foodstuffs (0, 1)*	Raw materials (2, 4)	Fuels (3)	Crude oil (333)	Chemical products (5)	Machinery/ transportation equipment (7)	Motor vehicles (78)	Other industrial products (6, 8)	Manufactured goods (5,6,7,8)
Japan	Exports	1,477	1,606	627	0	9,329	146,366	54,196	47,664	203,359
	Imports	19,186	18,154	57,191	16,967	9,398	12,689	1,431	32,031	43,125
US	Exports‡	20,072	18,338	8,154	117	22,198	95,422	18,676	31,247	148,867
	Imports‡‡	26,599	11,931	39,806	24,188	15,540	166,425	70,313	111,815	293,780
W.Germany	Exports	11,600	5,031	3,943	0.01	31,202	116,282	41,142	69,835	217,319
	Imports	21,807	12,915	21,914	7,702	17,686	50,450	12,144	59,787	127,923
France	Exports	16,410	4,639	3,291	0.2	16,763	41,392	13,498	34,011	92,166
	Imports	14,233	6,381	16,246	7,449	13,708	37,794	10,170	39,396	90,898
UK	Exports	8,029	2,999	12,727	9,225	14,205	37,153	5,796	28,660	80,018
	Imports	14,762	7,314	9,230	3,613	10,772	42,187	11,643	39,181	92,140
Italy	Exports	6,221	2,251	2,737	24	7,060	32,895	6,764	46,139	86,094
	Imports	13,932	9,351	17,433	8,341	11,001	24,881	7,620	21,704	57,386

* Commodity categories are based on SITC. ‡ F.a.s. basis. ‡‡ Generally market value in country of origin is reported. Source: OECD

Winning the battle of the high yen

Continued from previous page

■ **Technological innovation:** Companies have increased research and development spending to stay ahead of their international competition. For example, more than half the cameras sold in Japan are now supplied from overseas – but output of top-of-the-range auto-focus models is concentrated at home.

In semiconductors, Japanese companies have virtually captured the market in the latest dynamic access random memory devices – one megabit DRAMs. Japan is investing as much as the US in research in high-temperature superconductivity – a field of scientific study with potentially vast implications for the electronics and electrical industries.

Older industries, with less scope for new product development, have invested heavily in improving production techniques. Even basic industries such as steel and textiles are investing heavily in computer-controlled equipment.

Japanese output of machine tools soared 29 per cent in the first nine months of this year, with virtually all the increase going into the domestic market.

■ **Diversification:** Companies in mature markets have pushed into new areas in the search for growth. Sony, a leader in consumer electronics, has developed a fast-growing business in computer memory disks which last year accounted for 20 per cent of group sales.

Synthetic textile companies have pushed into related industries such as plastics and drugs. Some companies have gone much further from their industrial base – developing land holdings for offices, shops and hotels. For example, Matsushita Electric, the electronics group, is building a ski resort.

The balance of these elements within each industry is very different. Among large industries, electronics has emerged as the strongest from the turmoil of the last three years.

According to stockbroker Jardine Fleming, Japan's electronics industry doubled its share of total exports from 15 per cent in the first half of 1986 to 30 per cent in the same months of 1988.

While pushing production of relatively low-technology consumer appliances overseas, companies have expanded domestic output of high-margin high-technology items, many of them designed for commercial and industrial use. Facsimile machines, lap-top computers and laser printers are among new products which face very little competition from foreign companies – either in Japan or in export markets.

Machine tools is another industry where the application of high-technology has paid off for Japanese companies. The Industrial Bank of Japan, forecasts that electronics, communications and machine tool industries will expand output by an average of 10 per cent a year or more over the period to 1992.

By contrast, the car industry, an economic giant since the war, could face difficulties. Domestic output is forecast to fall over the same period by 0.4 per cent annually. Some smaller companies among the nine Japanese carmakers might have to merge. In the meantime, the industry's energies are tied up in managing its large investment in US production.

Other industries which are under pressure include textiles, ship-building and iron and steel. All of them, despite cost-cutting, are exposed to severe competition from fast-expanding South East Asian rivals, especially South Korea. Diversification is a popular strategy, but it can be a slow one. At Nippon Steel, for example, steel accounted for 91 per cent of last year's sales.

However, changes within individual industries have to be seen in the context of the economy as a whole. Japan is steadily reducing its reliance on primary and secondary industry and expanding services industries, including leisure, transport and financial services. IBJ estimates that tertiary industry's share of production will rise to 51 per cent by 1992, against 40 per cent in 1980.

Such a transformation will require continuing huge investments of labour and capital, not just in sophisticated fields such as information technology, but basic ones like road-building. As a result, Japan will almost certainly require more workers, not fewer.

Japan's trading partners will demand further liberalisation – especially in the distribution system. The country's political leaders will have to make concessions, particularly if Japan's trade surplus remains high.

As a result, Japanese companies will need to think fast to stay on top of these simultaneous developments. Inevitably some will cope with the changes better than others. So far, the gap between the best and the worst performers has been disguised by the strong economy.

PRIVATE SECTOR RESEARCH
R and D as % of GNP

	Japan	US	France	W.Germany
1965	0.99	0.91	0.60	1.02
1970	1.33	1.10	0.68	1.17
1975	1.37	1.07	0.72	1.22
1980	1.54	1.21	0.80	1.48
1985	2.19	1.45	1.08	1.71

Source: MITI

MANUFACTURING OFFSHORE

Investment in overseas production rises rapidly

THE "Made in Japan" label is becoming a little less common these days, as changing competitive conditions oblige the world's most aggressive exporter of industrial products to shift more of its manufacturing offshore.

The trickle of investment by Japanese industry in overseas production facilities is swelling rapidly into a steady stream. In the three years to last April, its cumulative value leapt 64 per cent from $22bn to $36bn.

That is, of course, only a tiny fraction of total foreign direct investment by US industry and represents less than two per cent of manufacturing capital stock in Japan. Nor has it yet made much of a dent in Japan's trade surplus. This is partly because the establishment of new factories often leads to a near-term boost in exports of plant and components to equip and supply them.

However, in several industries the effects are already starting to show up clearly. Last year, for instance, more than a third of all colour television sets and a sixth of all video recorders made by Japanese companies were produced overseas.

All the country's leading car manufacturers have decided to invest in assembly plants in the US, where their combined capacity is expected to reach 2.2m units by 1990. They have been followed there by more than 130 of their automotive parts suppliers.

Furthermore, output from these overseas plants is starting to flow back to Japan. Honda is already exporting cars there from the US, and Japanese demand for products such as electric fans and cassette recorders is increasingly met from plants in Asia.

Economists are unanimous in expecting the trend to grow in importance. The Industrial Bank of Japan, one of the country's most respected long-term forecasters, believes that by 1992 the proportion of overseas production will reach 25 per cent in cars, almost 20 per cent in synthetic fibres and about 15 per cent in electronics and electrical machinery.

"The battleground between Japanese companies has now shifted to manufacturing overseas. Most of them know that continuing to rely on exports just won't work in future," says Mr Alan Bell, vice president of research at the Tokyo office of Salomon Brothers, the US investment bank.

The main initial stimulus to the recent surge of foreign manufacturing investment was the sharp rise in the yen following the Plaza Agreement on international currency realignments in the autumn of 1985.

That led many Japanese companies to shift production of basic products and simpler components to low-cost south east Asian locations. Because such plants are often heavily labour-intensive, the companies have continued to switch production from country to country in response to movements in relative exchange rates and labour rates.

In the industrialised world, trade barriers, or the threat of them, have provided a powerful additional impetus. Many Japanese companies have set up European assembly plants after dumping duties were imposed on their exports, while the rush into US car manufacturing was triggered largely by the 1981 voluntary export restraints demanded by the Reagan Administration.

This transfer of capacity has often involved formidable management challenges. As well as having to find alternative employment for workers at home, Japanese companies have often complained bitterly about the difficulty of achieving overseas high levels of quality and cost.

Mr Katsutano Kataoka, chairman of parts and audio equipment maker Alps Electric, says the company has had endless headaches at its UK plant in Milton Keynes and has had to resort to sending cadres of engineers to sort them out.

"How would you manage a factory where absenteeism is running at 15 per cent?" he asks. "Here in Japan, it's never more than 2 to 3 per cent, and that includes people on holiday." He, like other Japanese executives, also says it has been hard to obtain reliable local supplies of suitable components.

Some of these teething troubles are undoubtedly due to Japanese companies' failure to adapt to local conditions. They have often built overseas plants which were exact replicas of those at home without first considering whether suitable local supplies were available to make them work.

Some Japanese copier companies found their US plants were unable to use American grades of aluminium, so they ended up importing the metal from Japan at huge extra cost. Subsequent plants have been re-designed to accept local sources of aluminium.

Despite such hurdles, much of Japanese industry believes it has no choice but to persist with overseas expansion if it is to remain competitive. Alps, for instance, says that by producing in Europe it can meet in two months orders which would take four months to fill if supplied from Japan.

An increasingly important motive is a continuing shift in Japanese companies' product strategies. As they move upmarket into more complex and sophisticated products, they are finding that their customers' requirements oblige them to invest in a more extensive local presence.

Several car companies have set up design centres in the US, while Nissan says the next-but-one model to be made in its UK plant will involve substantial local design. Electronics companies such as NEC, Sony and Matsushita are also decentralising more of their development to overseas locations.

Another reason for doing so is rising costs due to a shortage of suitable engineers at home. Mitsubishi Electric, for instance, employs 80 engineers in the UK on power station design and plans to expand the operation to include computers and factory automation. It says it pays its British engineers only two-thirds as much as those in Japan.

However, few, if any Japanese companies appear ready yet to entrust work on core technologies and really advanced innovations to foreign affiliates. They believe that such vital activities have to be kept close to home.

Until now, most Japanese manufacturers have preferred to set up greenfield plants overseas, on the grounds that it was easier to start from scratch with equipment, management methods and a labour force of their own choosing than to wrestle with unfamiliar working practices and production systems in an established facility.

Recently, however, they have begun to show increased interest in takeovers. In the rubber industry, Sumitomo has acquired Dunlop's worldwide operations, while Bridgestone has invested in Firestone of the US. In consumer electronics, Sony has purchased CBS records of the US.

Mitsubishi Corporation, Japan's largest trading company, has bought manufacturing businesses in the US and Canada and is also considering possible takeover opportunities in Europe as part of an "action programme" to expand its presence there. This trend is expec-

Continued on next page

Production line at the Nissan plant in the UK at Washington, County Durham. Ashley Ashwood

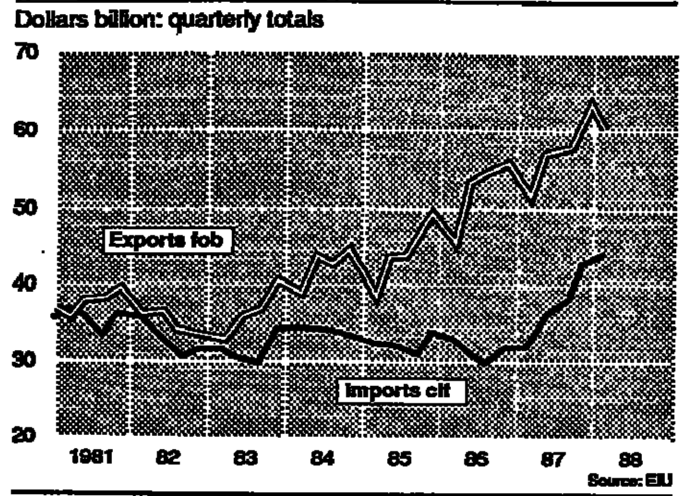
Japan's foreign direct investment

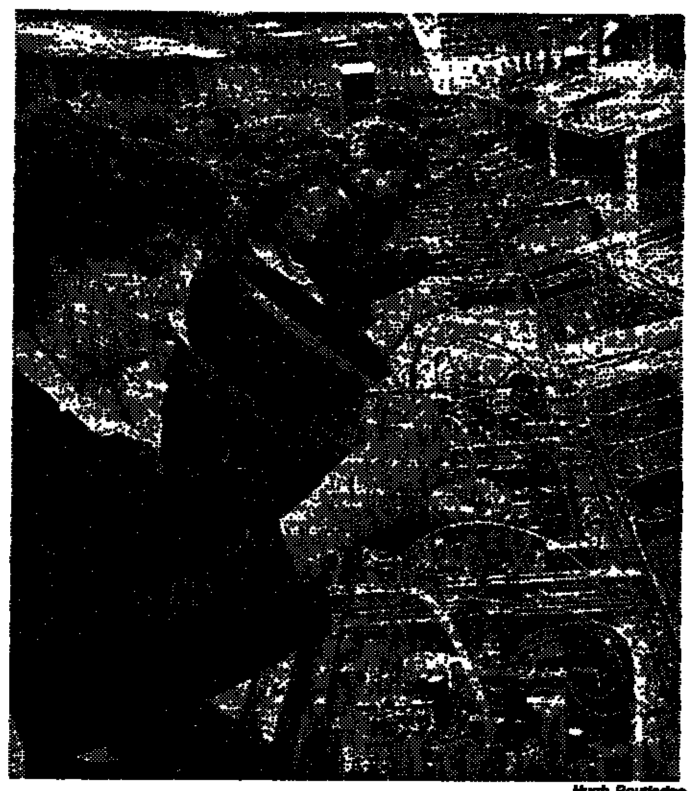
Cumulative to April 1988, (in $million)

	North America No.	North America Value	Latin America No.	Latin America Value	Asia No.	Asia Value	Middle East No.	Middle East Value	Europe No.	Europe Value	Africa No.	Africa Value	Oceania No.	Oceania Value	TOTAL No.	TOTAL Value
Manufacturing industry	3,318	14,753	971	4,994	7,174	10,000	74	1,260	1,293	3,310	142	225	404	1,496	13,375	36,038
Non-manufacturing industry	10,743	36,858	4,806	20,126	5,784	16,286	212	448	3,192	16,794	1,051	3,722	1,778	5,131	27,565	99,365
Branch openings & expansion	344	667	54	45	571	336	37	1,369	196	905	12	1	15	12	1,229	3,336
Real estate acquisitions	2,005	485	99	23	162	37	1	2	180	38	21	2	70	7	2,538	595
TOTAL	16,408	52,763	5,930	25,189	13,691	26,658	324	3,079	4,861	21,047	1,226	3,951	2,267	6,647	44,707	139,334

Source: Japanese Ministry of Finance

Japan's foreign trade

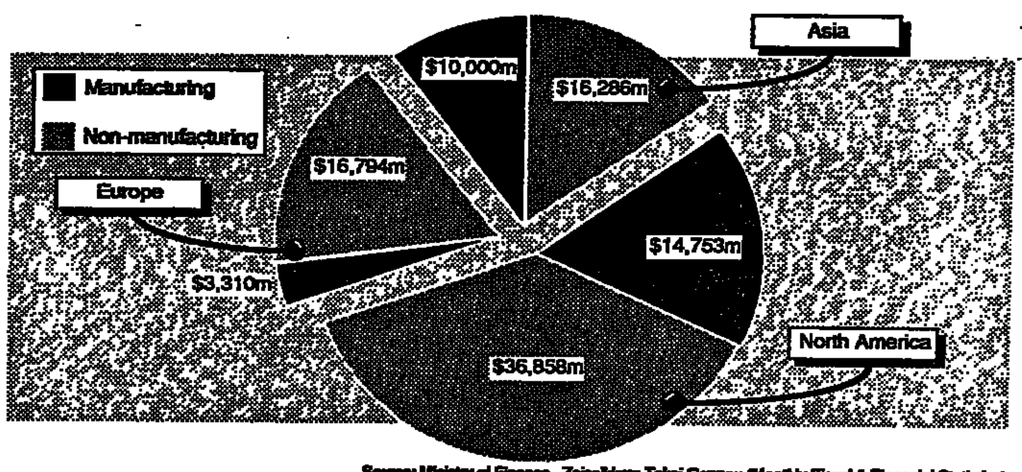




Hugh Routledge

Colour TV set production line at Sanyo's UK plant in Lowestoft. More than a third of Japan's TV sets are produced overseas.

Stock of foreign investment



Source: Ministry of Finance, Zaisaikinyu Tokei Geppou (Monthly Fiscal & Financial Statistics)

Higher value-added products

Continued from previous page

demand on their home market, generated by an economic boom which appears set to continue for some while longer. That obviously will provide a cushion for profits.

The other is their renowned ability to translate new ideas swiftly into commercial products, which owes much to resourceful and highly educated staff and to the flexibility of the Japanese economy. In a recent study, the Organisation for Economic Cooperation and Development found that Japan had achieved a near-perfect balance between innovation and the diffusion of technology across industry.

Nonetheless, the escalating costs of remaining among the technological and market leaders are likely to lead to steadily increased competitive pressures. Mitsubishi Electric, for instance, estimates that it will cost Y60 bn to make the next generation of 4-megabit memory chips – double the amount it spent to produce the 1-megabit devices it is currently manufacturing.

Such spiralling investments have led some observers to suggest that not all Japanese manufacturers will be able to stay in the race to move upmarket, and that sooner or later shake-outs will occur in many of the country's major industries.

However, such a process of "survival of the fittest" is unlikely to provide much consolation to their western rivals, particularly to those which cling to the outdated belief that the main strength of Japanese industry is its ability to compete on price.

Japanese producers are wary about EC trade barriers, says **Guy de Jonquières**

Concern over 'Fortress Europe' after 1992

THE ECONOMIC relationship Japan and Western Europe for most of the past decade has been comparable to that of two people viewing each other from opposite ends of the same telescope.

Seen from the European end, Japanese industry's steadily growing power and its deepening competitive inroads into overseas markets have loomed ever larger in the sights of businessmen and policymakers.

But in Japanese eyes, Europe's sluggish economic performance and resistance to technological change have steadily diminished its importance, particularly in relation to the more alluring growth opportunities on offer in the US and Asia.

Now, the burst of activity generated by the European Community's plan to create a single market by 1992 has caught Japan's attention, and it has decided to take a closer look.

The image which confronts it is, however, still somewhat confused and ill-focussed. Officially, the Japanese Government welcomes the 1992 programme as a stimulus to economic growth and investment, while Japanese businessmen are keen to position themselves to share in any surge in EC demand.

But this optimism is clouded by concern about how far, and on what conditions, the EC will permit Japanese companies to participate in its planned single market. In Tokyo, as in Washington, fears are expressed that, as fast as internal trade barriers are removed, external ones will go up, to create a "Fortress Europe."

Anxieties have been fuelled by the EC's anti-dumping actions over Japanese imports

These anxieties have been fuelled by the EC's increasingly frequent recourse to anti-dumping actions against Japanese imports, and by its controversial decision to extend such measures to cover Japanese assembly plants in Europe. The legality of this step is being challenged by the Japanese Government in the General Agreement on Tariffs and Trade.

The Japanese are also worried that the EC will take powers to restrict the local operations of their financial institutions unless their government meets demands that European firms be accorded reciprocal access to its market.

The belief is growing in Japanese manufacturing industry that the scope for further growth in its direct exports to the EC is likely to be steadily restricted in years to come. As a consequence, many companies have concluded that the only way to secure access to its market may be from the inside, through increased direct investment in local plants.

Though there has been a steady growth of Japanese-owned plants in Europe in recent years, particularly in the field of consumer electronics, the total value of Japan's direct manufacturing investment in the region remains modest, amounting to \$3.3bn as of last April. By contrast, the 1986 assets of US manufacturers in Europe totalled \$185.5 bn.

The figure for Japan may be somewhat understated, because it covers only investments which show up on its national accounts and excludes those which are locally financed. Nonetheless, Europe has attracted only 15 per cent of Japanese manufacturers' foreign investments, less than the US, Asia or Latin America.

Europeans also complain that the quality of many of those investments is very low. They accuse the Japanese of setting up low value-added "screwdriver" plants, mainly to circumvent import barriers, and of being reluctant to deepen their presence by investing in local components production and research and development facilities.

This is particularly disappointing to European governments, which compete fiercely to outdo each other in thrusting generous financial and other inducements on Japanese investors.

Many Japanese companies admit that their European factories are little more than assembly shops, which use semi-skilled labour to put together components imported from Japan. They argue, however, that it is extremely difficult to find reliable local suppliers of suitable parts and materials. The European response is that the Japanese are not trying hard enough.

The truth probably lies somewhere in the middle. Japanese industry has only limited experience of producing overseas and probably genuinely needs time to build up to the high levels of local sourcing achieved by many American multinationals.

On the other hand, many Japanese companies also appear to regard foreign direct investment largely as an exercise in export substitution. They often fail to recognise that US multinationals owe their acceptability in Europe to their diligent efforts to present themselves as good corporate citizens, committed to the local economies which they serve.

European impatience is giving rise to increasing pressures for mandatory rules setting minimum local content requirements for local Japanese plants. The strong support for such proposals in parts of EC industry doubtless also reflects the belief that, if Japanese companies are compelled to accept European cost and efficiency levels, their competitive thrust will be seriously blunted.

The local content issue has been highlighted recently by the controversy over France's resistance to car exports from Nissan's UK plant. Though the British Government has insisted that Nissan achieve 70 per cent local content, but France argues that it should be at least 80 per cent before the cars qualify as EC products.

France's position on this issue, like its unilateral restrictions on direct exports of cars from Japan, lacks any basis in law. However, the outcome of the controversy is being closely watched by Japanese industry as a pointer to the future. Several Japanese motor companies have deferred plans to build European assembly plants until it is clearly resolved.

Interestingly, many Japanese businessmen consider the Nissan dispute as important as a test of how European governments behave towards each other as of EC attitudes towards Japan. Rightly or wrongly, it has encouraged the belief that nationalistic rivalries inside the EC will become more intense after 1992.

Officially, the Japanese Government welcomes the stimulus of the EC's 1992 programme

That expectation is already starting to influence decisions on plant location. Anxious to minimise their exposure to political rows within the Community, many Japanese companies say they aim to spread their future investments there across several different countries.

The Nissan affair has also persuaded Japanese firms that it is unwise to adopt too high or independent a profile in Europe. Rather than push ahead with wholly-owned investments, many of them are now pursuing the idea of expanding by means of joint ventures and other collaborative ventures with European partners.

Though such arrangements could reduce their freedom of manoeuvre and entail an extra burden of management complexity, it is hoped that they would confer increased political acceptability.

Much of Japanese industry's approach to Europe appears still to be caught between two opposite impulses. It is keen to build enough bridgeheads inside the Community to secure its future access to the single market, particularly against the threat of a "Fortress Europe."

However, Japanese companies are hesitant to make too deep a commitment until they are surer that the promise of an economically revitalised Europe will really be kept, and that they will be permitted to share in its fruits.

Until the view at the other end of the telescope becomes clearer, a wary and measured attitude towards expansion in Europe seems likely to prevail.

Picture by Tony Andrews

London visit: Mr Hajime Tamura, Japan's Trade and Industry Minister, is welcomed by Mrs Margaret Thatcher, Britain's Prime Minister, at Number 10, Downing Street.

TOWARDS A SINGLE EUROPE

EUROPE'S plan for a single market by 1992 has been watched with a degree of both fascination and alarm in the capitals of two of the world's large trading partners: the US and Japan.

These and other key issues concerning the future development of Europe were examined in a Financial Times survey, 'Towards a Single Europe,' published on Thursday, November 17, 1988.

Copies of this 14-page survey are available from the Financial Times, (Back Numbers Dept.), 10 Cannon Street, London, EC4P 4BY; telephone 01.248.8000, extension 4684.

Overseas investment

Continued from previous page

ted to gain momentum, particularly in lower technology industries making bulky products which are costly to ship around the world.

One of the biggest questions for the future is how long Japanese industry can continue to move operations offshore without eroding their domestic manufacturing base. Until a year or so ago, fears of such "hollowing out" were widely expressed.

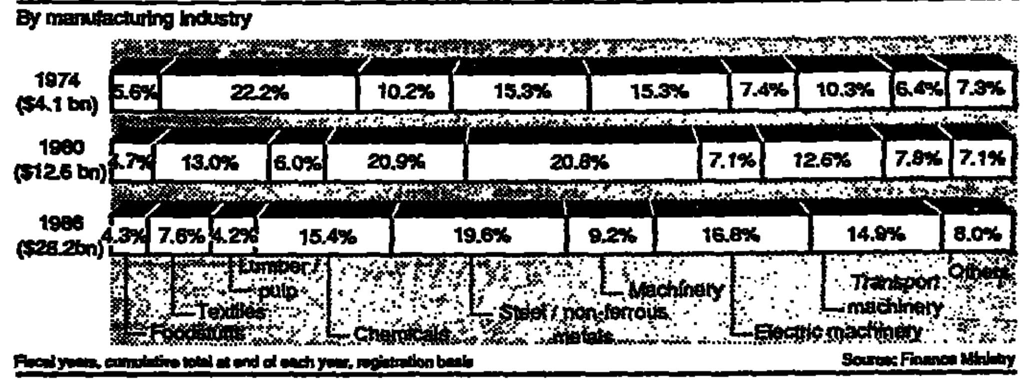
Today, such anxieties have receded, as profits have continued to strengthen and employment has remained high. The conventional wisdom now is that Japan can keep its factories turning by continuing to move up-market into products which are made in lower volumes but involve higher levels of value added.

That confidence has been bolstered by booming home demand, which has kept many manufacturers working overtime. The real test of Japan's ability to manage the domestic consequences of its foreign expansion may come only after the current upswing in its economic cycle has subsided.

Guy de Jonquières

Japan's overseas investment

By manufacturing industry



Fiscal years, cumulative total at end of each year, registration basis — Source: Finance Ministry

JAPAN'S SHIFT OF CAPACITY OVERSEAS: VEHICLES

	1980	1985	1990
Overseas as % of total	3.9	8.9	21.9
of which:			
US	0.0	3.1	10.8
EC	0.0	1.0	2.1
E and SE Asia	1.3	2.0	4.9
Other	2.6	2.8	4.1

Source: Toyo Keizai

JAPAN'S SHIFT OF CAPACITY OVERSEAS: ELECTRICAL AND ELECTRONICS

	1980	1985	1990
As % of total	5.0	8.0	15.0
of which:			
US	2.5	4.0	7.0
EC	0.8	1.0	3.0
E and SE Asia	1.2	2.0	4.0
Other	0.5	1.0	1.0

Source: Toyo Keizai

JAPANESE INDUSTRY 5

US-Japanese scientific research agreement

New two-way information flow

The agreement lays the foundation for increased collaboration in a wide variety of fields. Japan is offering fellowships for 300 foreign scientists to work in Japanese laboratories. Above: researchers in Fujitsu's physical design department.

UNDER THE terms of an agreement with the United States, signed earlier this year, Japan is increasingly opening its doors to foreign scientists and engineers for collaborative research efforts in a wide variety of fields.

Published Japanese research papers will also become increasingly available, some in translated form, to researchers in the US and elsewhere.

The "US-Japan Co-operation in Science and Technology Agreement" lays the framework for increased collaborative research efforts between the two countries. The initiatives begun under the agreement are also expected to benefit researchers in other countries.

The agreement, which builds upon principles established in a 1980 science and technology pact, aims to establish an increasingly open exchange of non-proprietary scientific and technical information between the two countries.

Excluded from the pact, however, is research with military applications and proprietary research.

By establishing rules for intellectual property rights resulting from joint US-Japanese research, however, the agreement is expected to encourage increased collaboration in research and development in industry.

From a US perspective, the Science and Technology Co-operation agreement is seen as a means of creating a two-way flow of information, where in the past Japanese diligence in gathering information has meant that most often it is American or European research results that flow to Japan, rather than in the opposite direction.

To take full advantage of the information dissemination systems set up under the agreement, Western scientists will still have to overcome the language barrier that has discouraged them from seeking Japanese research results in the past.

With the growing strength of Japanese research in such fields as biotechnology, semiconductors and superconductors, however, the need to overcome communications problems is evident.

A collaborative effort between the US National Science and Technology Information Service and Japan's Information Centre for Science and Technology will, however, focus on improving foreign access to each of its data bases.

As part of this effort, JICT will translate an increasingly wide range of Japanese research reports into English.

In addition, the NTIS has begun publication of weekly foreign technology newsletters covering fields including microelectronics, superconductors, ceramics and biotechnology.

Another aspect of the US-Japanese agreement aims to encourage interaction between scientists and engineers from both countries.

Japan has offered over 300 fellowships for foreign scientists to work in Japanese laboratories. Of these, about 150 to 200 will be from the United States. Since the programme was started , six months ago, eleven US scientists have come to Japan. US officials hope to fill all of the places available next year.

The programmme is designed to provide both cultural and scientific exchange and to encourage collaborative research efforts.

While it is too early to judge the success of the programmes set up under the terms of the Science and Technology Agreement, and much will depend upon issues of interpretation such as what limits are set on information exchange in the name of national security, US officials are generally encouraged by the progress to date.

Louise Kehoe

WORLD GNP FORECASTS 1986 to 2000*

	Total GNP ($bn) 1986	2000	Annual growth rate 1986-2000 %
US	4,208	6,150	2.8
Japan	1,963	3,710	4.7
EC	3,093	4,680	3.0
Asia NICs‡	215	540	6.8
ASEAN	176	370	5.5
China	393	1,010	5.9
USSR	2,206	3,120	2.5
Other	4,415	6,910	3.3
Total	16,670	28,490	3.4

* 1986 exchange rates. ‡ Newly industrialised countries.
Source: Basic strategy toward the 21st century, Economic Planning Agency

Production and export of principal items

Japan's output, 1986	Production (in 000s) (A)	Exports (in 000s) (B)	Share (B/A)%
35mm cameras	17,100	14,233	83
Watches*	194,749	170,355	87
Motorcycles	3,397	1,605	47
Bicycles	6,583	682	10
VCRs	31,272	27,689	89
Colour TVs	13,809	4,584	33
Microwave ovens	8,441	6,629	79
Washing machines	4,661	1,066	23
Refrigerators	4,497	920	20
Calculating machines‡	64,211	49,715	77
Copying machines	2,393	2,098	88
Cash registers	1,468	1,267	86

* Based on data of Japan Clock and Watch Association. ‡ Table type only
Source: MITI

JAPANESE IMPORT MARKETS
Changes in % shares

Item	1980	1987	Main supplier
Thin rolled sheet	2.1	31.0	
Ethylene Glycol	16.3	48.2	
Photo film	29.4	39.5	US (75%)
Sewing machines	8.8	30.5	Taiwan (92%)
Milling machines	15.4	41.9	
Calculators	12.9	49.0	Taiwan (89%)
BW TV	1.5	54.4	Taiwan (63%)
Radio cassettes	4.6	47.5	Korea (40%)
Electric fans	21.6	54.8	Taiwan (59%)
35mm cameras	7.7	46.6	Taiwan (65%)
Apparel	20.8	46.3	Korea (35%)
Undergarments	12.2	36.2	

Source: Toyo Keizai

Wage comparisons in manufacturing

	Unit	Hourly wages Currency/hour 1970	1985	$/hour 1985	Index (Japan =100)
United States	$	3.36	9.53	9.53	158
Canada	C$	3.01	11.59	8.49	141
Japan	Yen	336	1,439	6.03‡	100
Sweden	S.Krone	12.17	49.33	5.73	95
W.Germany	D.Mark	6.20	16.20	5.50	91
Netherlands	Guilder	4.82	16.16§	5.04	84
Belgium	B.Franc		293.81	4.95	82
Italy	Lira	635	8,539§	4.86	81
UK	£	0.55	3.71	4.80	80
Ireland	Punt	0.42	4.17	4.44	74
N.Zealand	NZ$		8.59	4.28	71
France	F.Franc	5.92	37.75	4.20	70

* $ figures are calculated according to the average exchange rates of the IMF, International Financial Statistics. ‡ $ = Y238.54. § 1984.
Source: I.L.O. Bulletin of labour Statistics

Manufacturing sectors

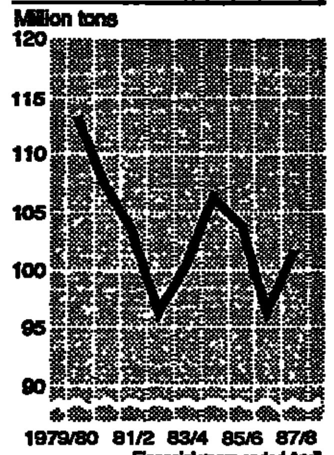
Size of establishment and shipment value in Japan's manufacturing sector (1985)

Small and medium-sized firms (less than 300 employees)		Large firms (more than 300 employees)
95.6%	Leather and leather prod.	4.4%
91.9%	Textiles & apparel	8.1%
83.6%	Foodstuffs	16.4%
79.9%	Metal products	20.1%
68.2%	Pulp & paper	31.8%
66.1%	Publishing & printing	33.9%
52.1%	General machinery	47.9%
46.1%	Chemicals	53.9%
45.3%	Precision machinery	54.7%
44.3%	Rubber products	55.7%
35.7%	Steel	64.3%
30.4%	Electrical machinery	69.6%
17.6%	Transportation equip.	82.4%
9.9%	Petroleum & coal prod.	90.1%
50.5%	Total	49.5%

Source: MITI

Crude steel production

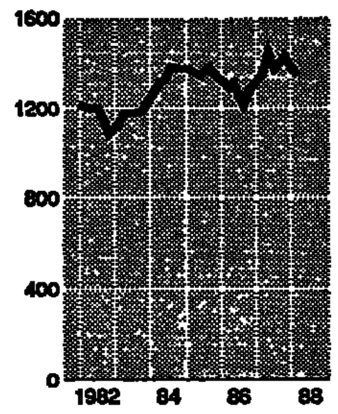
Million tons



Financial years ended April

New machinery orders

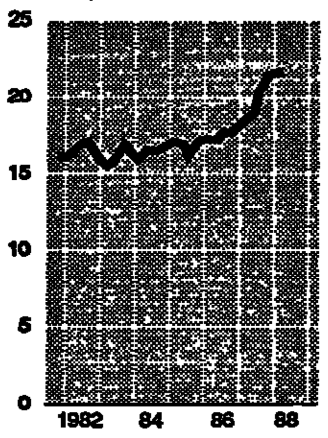
Billion Yen



Source: EIU

Building starts

Million square metres



Source: EIU

American companies are impressed by Japanese innovation in manufacturing in the US, says **Roderick Oram**

Big inroads in the US industrial landscape

ONCE considered curiosities for their uniforms, calisthenics and one-class cafeterias, Japanese manufacturing plants are rapidly becoming an integral part of the US industrial landscape.

Now the talk is of their innovative manufacturing and labour methods, high quality output and assimilation into their local communities. Directly through competition and indirectly by example, the Japanese companies are teaching a lot of lessons to their new US neighbours.

With growing US experience smoothing the way, Japanese investment is soaring in response to economic and political pressures to manufacture locally. Now two-in-three Japanese companies say they are interested in foreign acquisitions versus one-in-five, three years ago.

Investors still much prefer to build companies from scratch to avoid the headaches of taking over existing companies. But as they gain confidence in managing US operations, they are buying more companies.

Those offering well-known brand names, extensive distribution channels and other costly-to-create assets are particularly in demand. The purchase of CBS Records by Sony last year and of Firestone Tire and Rubber by Bridgestone this year, were notable examples of the trend.

Japanese purchases of US companies, or divisions of them, jumped in the first half of this year to 40 deals worth $6.7bn (plus 17 small transactions of undisclosed value) from $6.3bn in all of last year, according to Ulmer Brothers, a New York investment bank specialising in US-Japan mergers and acquisitions.

"We're seeing many more large deals over $100m on top of the continuing flow of smaller deals," says Mr Daniel Schwartz, managing director. Typically, the Japanese companies are moving onto bigger purchases after gaining experience with smaller deals, he added.

They are hunting through a wide range of industrial sectors seeking keenly computers, chemicals, plastics, electronics, basic manufacturing and consumer product makers along with financial institutions in the service sector.

So far, public criticism has been muted about the increase in Japanese-owned US plants to some 700 today from only 821 five years ago. Some commentators, though, believe a backlash could develop if the pace of takeovers keeps accelerating.

Investment patterns could replace trade as the main point of friction between the two countries, particularly over the contrast between unhindered takeovers in the US and Japanese resistance to any acquisitions at home whether by foreign or local companies.

The question of US public opinion is finely balanced. A recent questionnaire for the Japan Society of New York found that respondents in California, Michigan and Tennessee were highly ambivalent about the numerous Japanese plants in their states. Roughly one-third of them gave neutral responses to questions about the effect on the local economy and society.

Those who replied tended to express contradictory opinions. On the negative side, some 62 per cent said such plants took business away from American companies, 42 per cent said the flow of investment showed be slowed and 45 per cent said the plants were something of a threat to American economic independence.

On the positive side, the factories increased US competitiveness, according to 88 per cent, improved management (69 per cent) and upgraded training programmes (56 per cent).

The Japanese community in the US faces a challenge in the next few years to win over many of those "don't knows" and thus help blunt any backlash. To a large extent, familiarity wins the day. Respondents who worked in Japanese factories showed far higher support of them.

A telling incident took place in Michigan a year ago. When the first Mazda MX6 car rolled off the production line in the heart of US car country, Governor James Blanchard took it for a test drive. Surely a lynching offence but a few years before, the outing now was merely good politics. Some 140 Japanese companies have invested more than $1bn in Michigan plants employing 15,000 voters.

The car industry is the prime magnet for US investment, accounting for some $5bn of plants by six Japanese manufacturers plus perhaps several billion more by their parts suppliers who have come with them to the US. Honda is the leader with $1.7bn of investment in Ohio which with its competitors has created a Japanese "auto alley" from Michigan, Ohio, Illinois and Indiana down to Kentucky and Tennessee.

The large commitment has not insulated the companies from criticism, though. Lobbyists for US companies argue that automotive related trade deficits will persist for years because the companies are importing large volumes of *production equipment* and high value parts such as engines and transmissions.

The American Parts and Accessories Association, for example, has attacked Diamond-Star Motors, a $650m Illinois sports car manufacturing joint venture between Chrysler and Mitsubishi Motors.

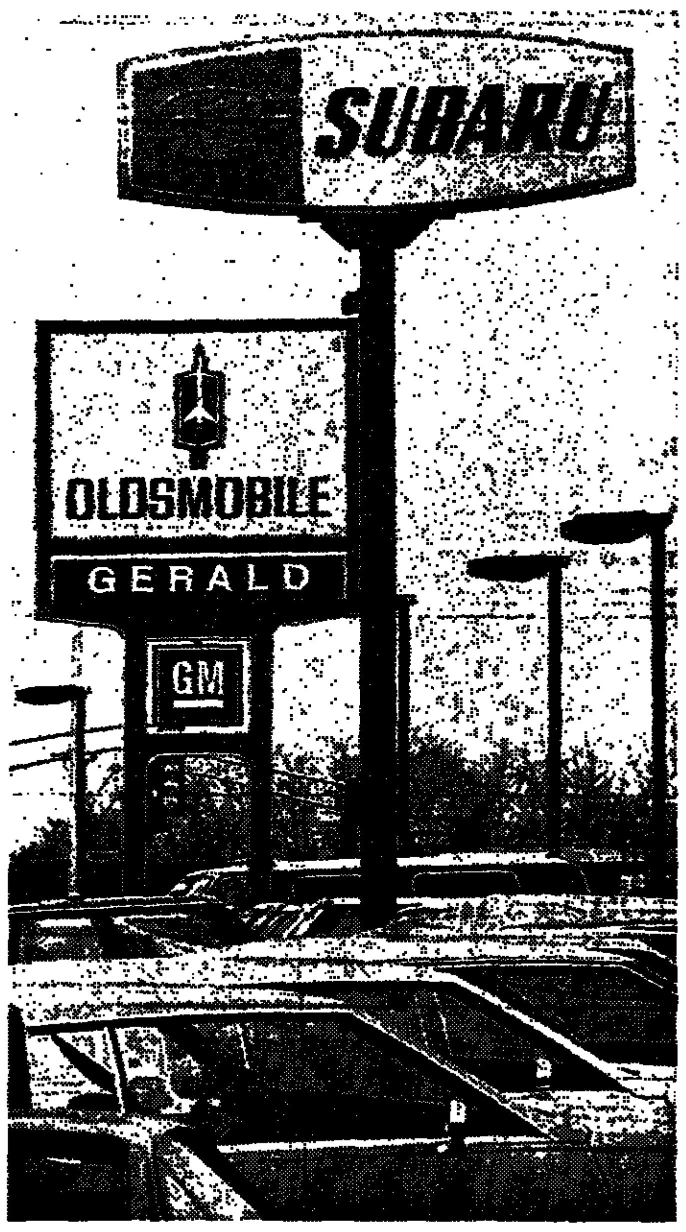
It estimates that US content of its cars, which went into production a few weeks ago is *only 30 per cent if all factors* are considered versus the venture's estimate of 60 per cent.

A big chill ran run through US industry in August when Kubota, Japan's largest manufacturer of agricultural equipment, unveiled its first mini-supercomputer. Deciding a few *years ago it must diversify, it* targetted computers as a suitable business.

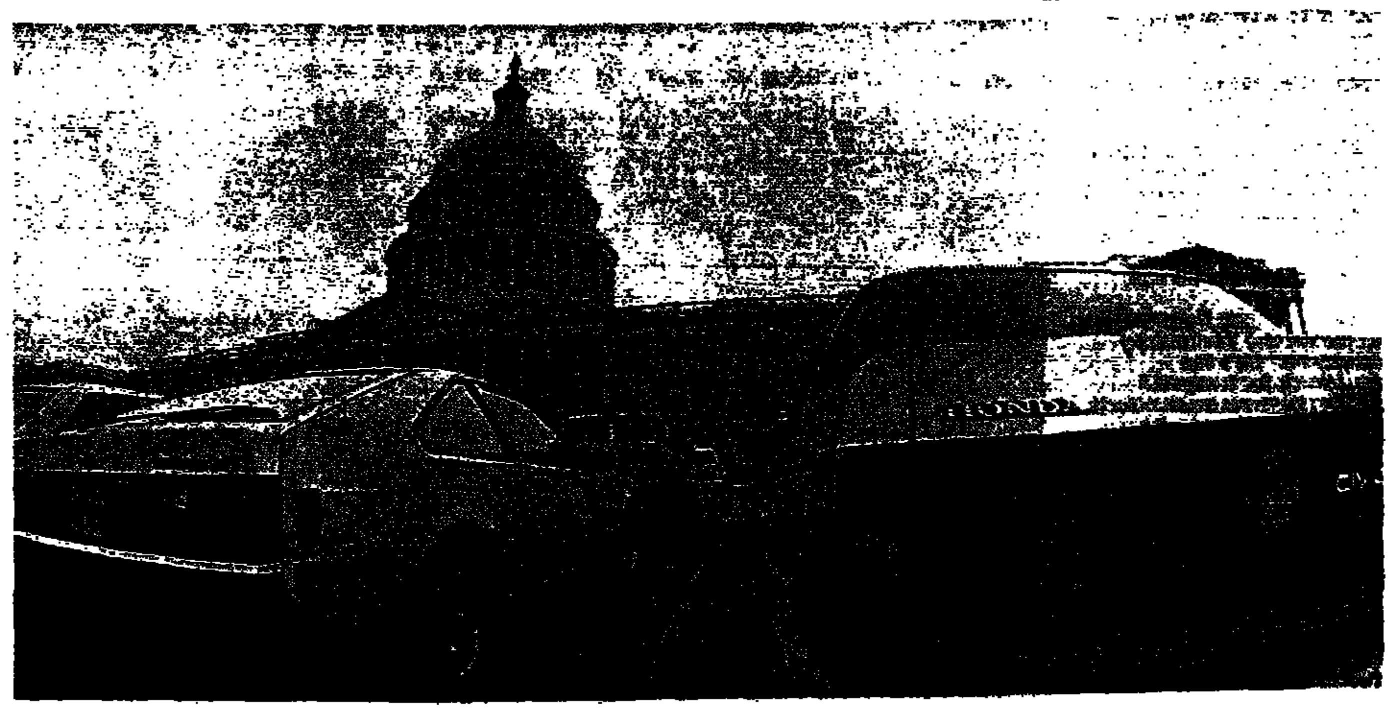
Beginning in October, 1986, it spent $75m buying mostly minority stakes in five of California's hotest computer component start-up companies. Using their parts, it developed in record time a state-of-the-art machine.

Kubota plans to generate 50 per cent of its revenues from computers by the mid-1990s, thanks to a hefty kick-start by fledgling US companies. The strategy set off alarm bells about the Japanese capitalising once again on American technology.

Though ex-patriot Japanese executives are more likely to be found these days at the company cook-out than the local *sushi* bar, their next stage of cultural adaptation will be harder and fraught with political perils.



Competing signs: American and Japanese car manufacturers advertise in an Illinois vehicle sales area.



Toyota and Honda cars parked outside the Capitol, Washington.

TWO WAY TRADE FLOWS IN $bn 1987 compared with 1970

			1987	1970
EC 12	–	North America	168	28
Japan	–	Asia 6	135	6
Japan	–	North America	129	13
NICs*	–	North America	87	2
EC 12	–	Japan	58	4
ASEAN 4	–	North America	18	4

* Newly industrialised countries

Source: The Economist

CHANGES IN JAPAN'S IMPORTS BY PRODUCT

($ base %)

	1987	1992 (projection)	1987-92
Fuel/raw materials	39.8	33.0	-6.8
Food and foodstuffs	14.6	15.0	0.4
Machinery	13.3	20.0	6.7
Chemical goods	7.8	6.7	-1.1
Total (inc. others)	100.0	100.0	

Source: IBJ estimate

CHANGES IN TRADE BALANCE BY REGION IN $bn

	1987 Exports	1987 Imports	1987 Balance	1992* Exports	1992* Imports	1992* Balance	1987-92 Balance
US	854	346	508	1,054	566	488	-20
EC	397	196	201	629	369	260	59
SE Asia	564	416	148	818	758	60	-88
Other areas	566	662	-96	750	1,060	-310	-214
Total	2,381	1,620	761	3,251	2,753	498	-263

Source: Industrial Bank of Japan estimates.

☐ Japan's imports are growing rapidly. Behind this growth is the general strength of domestic demand and a noteworthy shift in the relative costs of imports and domestically-produced goods that is taking place because of the yen's appreciation.

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JAPANESE INDUSTRY 7

Guy de Jonquières examines Japan's development in defence and aerospace markets

Inventive despite continuing constraints

JAPAN'S EMERGENCE in the past few years as one of the world's biggest defence spenders has provided a striking example of the speed at which the country's political attitudes are changing. Though much of the international attention has focused on the consequences for regional security, the economic and industrial implications may be at least as important in the longer term.

Japan's defence budget has risen by an average of 5.6 per cent in real terms annually since 1982 to reach Y3,700bn in the current fiscal year, just above the level of one per cent of gross national product which its government once regarded as an unbreachable ceiling.

A further 6.1 per cent rise is planned for the coming fiscal year starting in April, when Japan's defence spending is expected to be exceeded only by that of the US and the Soviet Union. The current intention is that it should continue to grow in future roughly in line with the economy as a whole.

The build-up represents a major concession to sustained American diplomatic pressure on Japan to shoulder more of the cost of its own defence and to assume a bigger role in regional security.

However, the very success of the US campaign brings into sharper focus a question which has been causing concern in Washington for several years: in bowing to near-term fiscal exigencies, is the US simply storing up industrial problems for tomorrow by hastening Japan's development as a competitor in defence and aerospace markets?

Western fears that these will be the next industries to be targeted by the Japanese were reflected in a recent analysis by international consultants Booz Allen and Hamilton. It stated that development of its aerospace industry was "strategically central to Japan's vision of its future world role".

On any measure, Japan still has a long way to go to match the scale of the US effort. Defence production is only 0.5 per cent of Japan's industrial output, and the annual turnover of General Dynamics, a leading US contractor, comfortably exceeds the value of Japan's entire defence procurement budget.

Furthermore, Japan has no national commercial aircraft programme of its own. It was prohibited from re-entering the business for several years after the Second World War, and production of its only home-grown airliner, the 60-seat YS-11, ceased in 1973.

For much of its business, Japan's industry depends heavily on technological collaboration, sub-contracting and co-production arrangements with American companies. Mr Bruce Roscoe, an analyst with the Tokyo office of Warburg Securities, has counted more than 80 such link-ups signed since the mid-1970s.

Among the more important ones are:

■ Systems and parts supply for the McDonnell-Douglas F-15 fighter and planned development of the YSX fighter-bomber, a Japanese variant of the General Dynamics F-16 scheduled to enter service in the mid-to-late 1990s.

■ Sub-contracting of 15 per cent of the Boeing 767 airframe to Japanese sub-contractors and collaboration on the stalled 7J7 programme.

■ Arrangements for joint production of the V2500 turbo-fan jet engine. These involve Japan's three largest defence contractors, Mitsubishi Heavy Industries (MHI), Kawasaki Heavy Industries (KHI) and Ishikawajima-Harima Heavy Industries (IHHI), along with Rolls-Royce and Pratt and Whitney.

■ Production of the American Patriot surface-to-air missile by MHI under licence from the US Navy.

Is the US storing up industrial problems by hastening Japan's development?

To conclude from such examples that Japan's defence and aerospace capacity remains firmly under western control would probably be wrong, however. For one thing, Japan has shown itself capable of developing some quite sophisticated weaponry on its own, including a land-based missile and a computer-controlled guidance system. It is also ploughing increasing resources into its national space effort.

Furthermore, Japanese industry has learned much about defence technology and manufacturing from its co-production and licensing deals with the US, many of which it has concluded on highly-favourable financial terms. That was pointed out as long ago as 1981 in an analysis of offset deals made by the General Accounting Office, a Congressional agency.

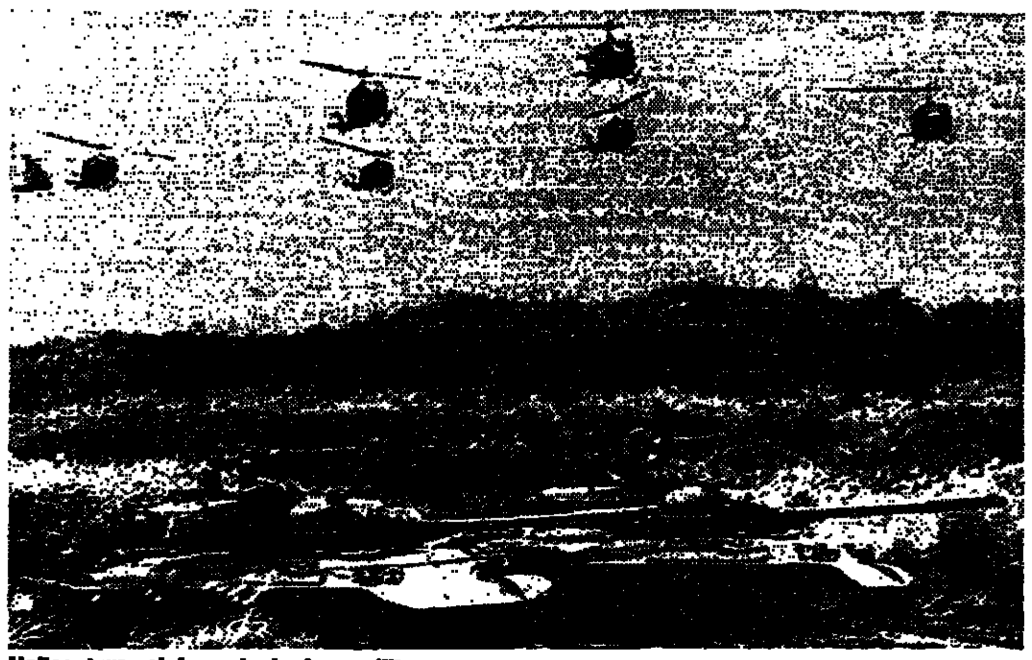
MHI, one of the contractors which unsuccessfully urged the Japanese government to support the development of a home-grown FSX fighter from scratch, insists that it has all the technology and know-how required to produce a military aircraft.

Exactly how much defence industry expertise the Japanese have acquired, even the US Government does not know for sure. It has had the right to look closely at activities in this area only since 1983, when governments of the two countries signed an agreement providing for the possible export of Japanese defence technology to the US.

According to US officials, visiting experts from Washington have been struck by the sophistication of Japanese work on defence systems and have pinpointed a number of specific areas in which they believe US contractors could benefit from collaboration. They include millimetre wave technology, guidance systems and production technologies.

Western defence companies have also been impressed by what they have seen of Japanese technology, particularly in the fields of new materials and electronic hardware. Most believe, however, that Japanese industry still has a good deal to learn about the design of complex integrated defence systems and the development of the intricate software needed to make them function.

Mr Bruce Gerding, a Tokyo-based executive of US defence contractor TRW, also points out that Japan lacks some of the infrastructure, such as high-altitude test facilities, needed to support a full-blown aerospace industry, and the personnel trained to operate it.



Helicopters reinforce tanks in a military manoeuvre near Mount Fuji. Japanese manufacturers have sold helicopters to Sweden, Burma and Saudi Arabia.

None the less, he adds: "Japan's handicaps are not insurmountable if the will and the money are there. The main requirement is time."

However, Japan's future ambitions in defence and aerospace seem less likely to be governed by its industrial and technological capabilities than by political considerations, and above all by its bilateral relationship with the US.

It is widely agreed that Japan would have great difficulty building up strong and self-sufficient industries simply on the basis of its home market. The costs of co-producing military aircraft such as the F15 are considerably higher than buying them outright from US suppliers.

The premium is apparently considered an acceptable price to pay for the experience which Japanese industry gains from such production. However, the investments which would be required to develop totally new large-scale defence systems are so huge that they could hardly be justified on the basis of Japan's own needs.

In civil aircraft manufacturing, Japan is also handicapped by the fact that its main national carriers have long been major customers of Boeing. To scale back such purchases in order to favour a national aircraft supplier would invite angry reprisals from the US and exacerbate tensions over the trade imbalance between the two countries.

Any sizable expansion of activity would therefore have to rely on expanded access to overseas sales and international collaboration. Strictly speaking, Japan's defence industries are prohibited from exporting by government administrative guidance, though this embargo has been periodically breached.

For instance, Japanese manufacturers have in recent years sold helicopters to Sweden, Burma and Saudi Arabia, transport aircraft to Zaire, mines and bombs to India and Taiwan, and patrol boats to Israel and Burma.

Such exports have, however, invariably been confined either to basic ordnance and munitions or to so-called dual use equipment, which could plausibly be employed for civil as well as military purposes. Japan has not attempted to export major weapons delivery systems capable of inflicting serious destruction.

A further obstacle also stands in the way of such exports. Much of Japan's weaponry and delivery systems is supplied by or made under licence from US companies on terms which explicitly prohibit overseas sales. It seems unlikely that Japan will wish for some time to challenge the spirit of such restrictions by exporting weapons systems which it has developed independently.

Such reluctance has undoubtedly grown since the bruising dispute with the US last year over the sale to the Soviet Union by a Toshiba subsidiary of highly sophisticated machine tools capable of producing submarine propulsion systems with very low noise levels.

Many Japanese companies interpreted the furious American reaction as a broader warning that they should stay out of international markets for complex military equipment.

Moreover, though some major defence contractors, such as MHI and KHI, say they are keen to deepen their involvement in the area, others are less enthusiastic. Electronics group NEC, the sixth largest supplier, says it is discouraged by government procurement rules which require companies to fund out of their own resources a large proportion of the costs of developing new defence systems.

In civil aerospace, MHI is discussing proposals to collaborate with several countries, including West Germany, China and Indonesia, on a planned 50 to 100-seat airliner, in addition to its stalled joint project with Boeing.

However, MHI executives say it would not be feasible to consider plunging ahead with any project for a larger aircraft unless it was wholeheartedly supported by the Japanese Government. Though the Ministry of International Trade and Industry is widely believed to view aerospace as a strategic sector, officials there say there are currently no plans to provide the financial assistance which would be needed to launch a large-scale civil airliner programme.

But the constraints preventing Japanese industry from launching a full-scale assault on international defence and aerospace markets should not lull western industries into the belief that they are immune to Japanese competition in these areas.

For there are already signs that Japanese companies are shrewdly exploiting the defence and aerospace connection for commercial purposes. This process, which is assisted by the rapidly growing overlap between commercial and military technologies, is happening in several ways.

Some Japanese companies are building on the experience acquired through military sub-contracting and co-production and applying it in the commercial field. For instance, Teijin Seiki, a smaller company which builds items such as pumps and actuators for military aircraft under licence from American companies has set up a plant on the US West Coast to supply similar equipment to American civil aircraft makers.

It is also becoming increasingly practical to transfer technology the other way round, from the civil to military sector. Indeed, Dr Michiyuki Uenohara, executive vice president in charge of technology and research at NEC, reckons that this may offer a more promising route.

He, like some other Japanese executives, is concerned that if companies develop technology specifically for military applications, they could run into political difficulties if they try to use it commercially. A common fear is that if companies respond to invitations to export defence technology to the US, it may end up being classified by the Pentagon.

No systems capable of inflicting serious destruction have been exported

But Dr Uenohara points out that NEC's commercial satellite transponders could quite easily be adapted for military use, and that some types of car electronics are applicable to aviation systems. He says commercial avionics, navigation, space and submarine systems are all "very promising areas" for the company.

Such "dual use" is growing also because military equipment is increasingly incorporating components originally designed for commercial applications, while the changing nature of civil electronics is throwing up innovations which have characteristics previously required only in the defence field.

For example, the Pentagon was alarmed two years ago to discover how many Japanese microchips were turning up in defence systems ordered from

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TOP 10 JAPANESE DEFENCE CONTRACTORS BY ORDER VALUE

	1986 Orders Ybn	% of budget	% of sales	1987 Orders Ybn	% of budget	% of sales
Mitsubishi Heavy Ind	291.4	24.3	17.8	262.5	20.6	15.4
Kawasaki Heavy Ind	144.8	12.1	21.0	171.4	13.5	29.6
Mitsubishi Electric	81.3	6.8	4.5	86.5	6.8	4.4
Ishikawajima-Harima	77.8	6.5	10.1	75.1	5.9	10.5
Toshiba	67.4	5.6	2.7	72.7	5.7	2.7
NEC	48.5	4.0	2.3	60.7	4.8	2.6
Japan Steel Works	22.2	1.9	21.4	24.3	1.9	23.8
Fuji Heavy Ind	18.2	1.5	2.5	20.2	1.6	2.9
Hitachi Zosen	18.2	1.5	5.2	20.9	1.6	8.2
Mitsubishi Corp	17.0	1.4	0.1	14.7	1.2	0.1

Source: Warburg Securities

Record order books for motor manufacturers

Vehicle demand accelerates

THE CURRENT state of thinking in the Japanese motor industry could well be summed up as: "Today, the domestic market – tomorrow, the world."

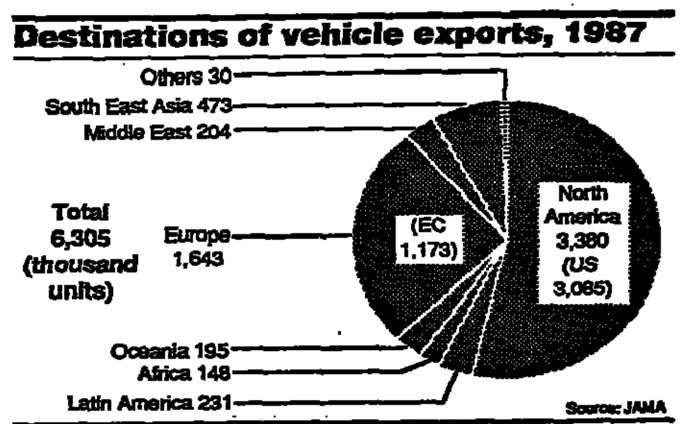
At home, the main challenge facing many manufacturers is to keep pace with demand. Last year, total new vehicle registrations rose 5.4 per cent to 6m units, the biggest increase since 1979, and the growth rate has continued to accelerate since then.

The first six months of the current financial year, which began in April, saw a further acceleration to a level 12.1 per cent over the same period the previous year. Though the Japan Automobile Manufacturers' Association (Jama) believes this hectic pace will moderate in the second half, it expects registrations to increase by 9 per cent over the full year.

The figures, which include commercial vehicles, partly reflect the strength of business investment. However, as is plain from the lines of gleaming new cars to be seen on the streets of Tokyo, they are also proof of new-found prosperity among Japanese consumers. There are waiting lists of as much as five months for some new models, such as Nissan's luxurious Cima saloon.

Progressive relaxation of Japan's notoriously high trade barriers on cars is also allowing foreign – and, above all, West German – suppliers to share in the boom. Though imports remain a tiny fraction of the total market, they rose 43 per cent to 97,750 units last year. Jama forecasts that they will exceed 130,000 units this year.

Destinations of vehicle exports, 1987



Much of the growth in demand is at the highly profitable upper end of the market, where leading Japanese manufacturers are all starting to compete intensely. Nissan, which is in the process of renewing its model range from the top down, says its gains in market share and profits in its last financial year were due almost entirely to sales of bigger cars.

But it is questionable, in a country with 11 carmakers, whether the luxury end of the market will expand fast enough to accommodate everybody who would like to compete in it. Last year, cars with engines of more than 2,000 c.c. accounted for only 3.4 per cent of total new registrations.

Manufacturers are therefore counting on two other hopes. One is that a steady stream of innovations such as four-wheel steering will persuade customers to change their vehicles more frequently. The other is that the trend to multiple car ownership will continue. Between 1977 and 1987, the proportion of Japanese households with more than one car has risen steadily from 6.3 per cent to 17.3 per cent.

At the same time, carmakers recognise that a further, unremitting, drive for cost-cutting and improved production efficiency will be needed if they are to hold their market share against lower-priced imports, particularly from South Korea and other Asian competitors.

"The only way to maintain the competitiveness of the Japanese industry is to introduce new capital-intensive technology. We must go to total automation. We are trying to reach new limits," says Mr Takao Tominaga, the head of Jama.

But however successful these strategies are, the motor industry is well aware that the longer term direction of domestic production is down. Indeed, output of vehicles has fallen slightly in each of the past two years from a peak of 12.3m units in 1985.

The Industrial Bank of Japan expects the near-term decline to be fairly gradual. It forecasts that car production in 1992 will be 0.4 per cent lower than in 1987, after a 7 per cent increase in the first half of the 1980s.

Nonetheless, Japanese car manufacturers are preparing for leaner times. Most of their domestic plant investment is nowdesigned to raise efficiency, not to increase capacity. Only one company, Mazda, has opened a new plant in Japan in the past five years.

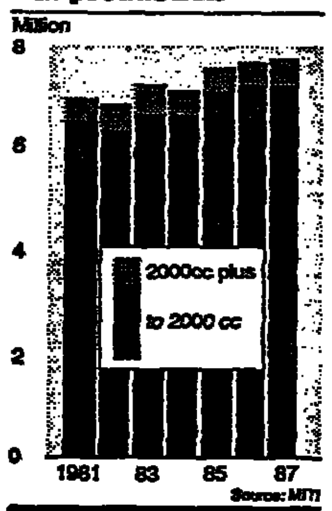
The explanation is, of course, the fall in exports as Japanese production comes on stream overseas, particularly in the US and South East Asia. By the early 1990s, Japanese carmanufacturing capacity in North America alone is expected to exceed 2m units, a quarter of last year's domestic output.

Mr Tsutomu Oshima, executive vice president of Toyota, believes Japan's direct exports to the US this year will be 200,000 units below the 2.3m ceiling set by the bilateral voluntary restraint arrangements which have governed exports since the early 1980s. He, like other industry executives, believes the restraints have now been rendered obsolete, though they may be renewed largely for political reasons.

Nonetheless, there is still large question-mark over what will happen to the output of all the newly-installed Japanese assembly capacity in the US. The answer, increasingly, looks as though part of it will be exported, particularly if the dollar continues to fall.

Honda has begun to export to Japan cars made in its plant in Marysville, Ohio and Toyota plans to ship models from its Kentucky factory to Taiwan. Ford is selling in Japan its new probe, jointly developed with Mazda and made at the latter's plant in Michigan.

Car production



The Ford-Mazda link is one example of a growing trend among Japanese manufacturers to seek international partners. Toyota has a joint US car production venture with General Motors and has agreed to make vans in Europe in collaboration with Volkswagen, while Isuzu and Mitsubishi Motors are partly owned by GM and Chrysler, respectively.

In Asia, Nissan owns 25 per cent of Yue Loong Motors of Taiwan, Mitsubishi companies are involved in China Motor Korea's Hyundai and Malaysia's Proton, while Toyota and Mitsui have a joint assembly venture in the Philippines.

The biggest imponderable now facing the Japanese motor industry's international ambitions is what to do about Europe, where several larger countries, including Britain, France anditaly have long restricted Japanese car imports by ceilings imposed at a national level.

Since these curbs are incompatible with the completely free internal circulation of goods envisaged by the European Community's single market plan, they are due to be lifted by 1992. However, it remains unclear what will succeed them.

There is strong pressure from the European motor industry for an EC-wide limit on Japanese imports. However, governments are divided, and the Brussels Commission has had considerable difficulty agreeing on exactly what to propose.

At present, only one Japanese car manufacturer, Nissan, has its own assembly capacity in the EC – in Britain and Spain. With an eye to the single market others, notably Toyota, Mitsubishi and Subaru, have been discussing plans to follow suit.

White Rolls Royce in the Ginza district of Tokyo. The lines of gleaming new cars in city streets are a proof of new-found prosperity among Japanese consumers. Imported vehicles still remain a tiny fraction of the total home market, however.

However, these plans are now being re-considered, in response to hostile reactions by the European motor industry and the uncertainties created by France's resistance to exports of Nissan cars assembled in Britain. France and Italy are both demanding that Japanese assembly plants be subjected to stringent EC requirements on local content.

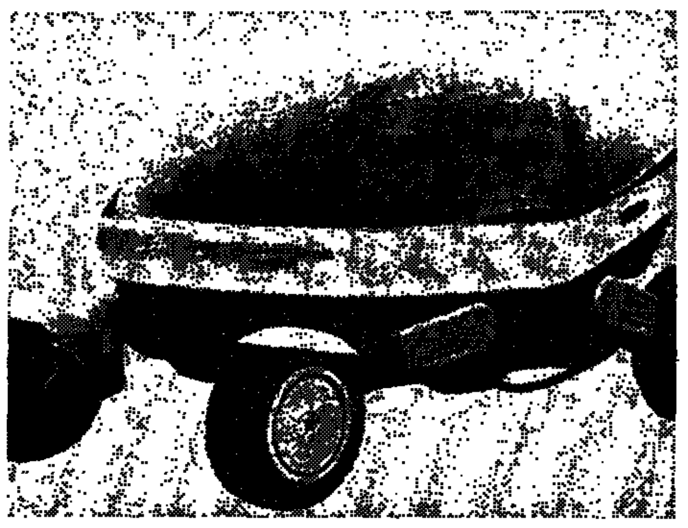
In an effort to mollify EC sentiment, several Japanese motor companies are looking to other investment possibilities, particularly the idea of joint ventures with European companies in areas such as component and engine production. However, suitable partners have yet to be found.

Furthermore, such deals on their own would not solve the problem of expanding sales of assembled cars in Europe, if direct exports remain limited by national restrictions or a new EC ceiling. In those circumstances, the incentive would be likely to grow for Japanese carmakers to meet European demand by exporting from plants in the US.

If that happened, EC policymakers could find themselves in an acutely uncomfortable dilemma. If they attempted to restrict such exports, they would invite a strong reaction from the US administration, which could lead to a violent trans-atlantic trade dispute.

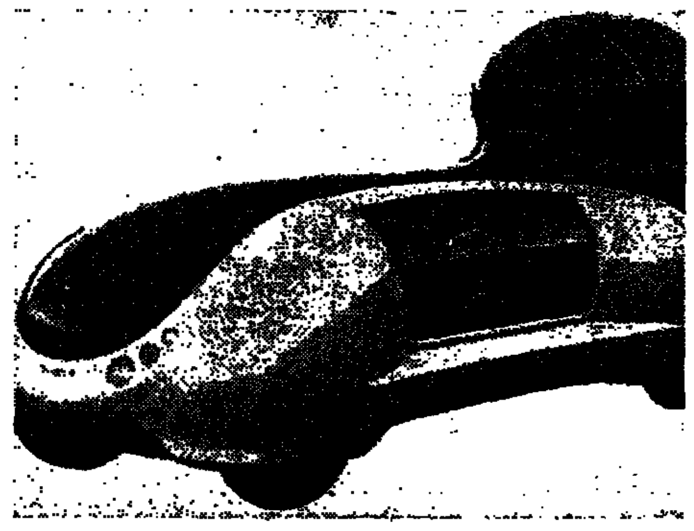
Confident of the likely American reaction, the Japanese Government appears determined to stay firmly on the sidelines – "if the issue arose, it would be up to the US and the EC to settle it among themselves," says a senior official at the Ministry of International Trade and Industry in Tokyo.

Guy de Jonquières



Futuristic car models

TOYOTA unveiled these futuristic car models at this year's Gifu Chubu Future Exposition in the Japanese city of Gifu.
The model on the left is the Cricket, featuring extended leg-like wheel struts to enable the vehicle to run on various types of terrain.
Pictured, right, is the Barocco, which includes a water tank to carry fish, as a mobile fish shop.



Defence spending

Continued from previous page

US suppliers. That discovery, and the fears it engendered about the longer-term implications for national security, persuaded the Pentagon to contribute funding to Sematech, a project intended to help US semiconductor makers catch up in manufacturing technology.

Conversely, an executive of a European defence electronics manufacturer was surprised on a recent visit to a Sony laboratory to be shown a prototype high-density optical storage unit which had been "ruggedised" to the sort of demanding standards normally required by military customers.

However, the visitor was assured that the unit had not been developed with defence applications in mind, but for use in portable data storage applications – "presented with any technical proposition, the Japanese will always think first of the potential commercial applications, where we will tend to look mainly for defence uses," he says.

Given the special characteristics and political sensitivities which attach to the defence and aerospace industries, both inside and outside Japan, it appears improbable in the foreseeable future that its industry will attempt to mount the same sort of highly visible direct attack on world markets as it did in cars or consumer electronics.

However, all the signs suggest that Japanese manufacturers will continue to accumulate expertise in these areas, and may well be more effective than their western counterparts in using it both to sell "dual use" products and to strengthen further their competitiveness in commercial markets.

Semiconductor producers are under increasing pressure, says Louise Kehoe

Surging world demand brings boom — and burden

IN the Japanese semiconductor industry, 1988 has been the "Year of the DRAM", with industry trends overwhelmingly influenced by the worldwide shortage of these ubiquitous data storage devices. For Japan's major chip-makers, who control over 80 percent of the world market for DRAMs (Dynamic Random Access Memories) surging demand has created both a boom – and a burden.

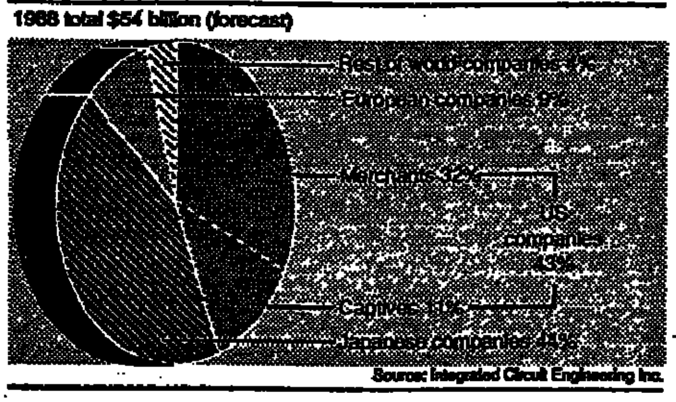
While enjoying record sales and profits over the past year, in large part due to rising DRAM prices, Japanese chipmakers have been placed under increasing pressure by both the Japanese and US governments to help resolve trade friction between the two countries.

Exports of DRAMs have been closely monitored by Japan's Ministry of International Trade and Industry, while the US Commerce Department has set "Foreign Market Value" prices for DRAMs sold in the US.

These measures, which ironically were designed to ensure that Japanese companies do not sell DRAMs at unfairly low prices, are not relevant in a period of shortages and high prices and should be removed, Japanese industry executives say. Although remaining intensely competitive among themselves, Japan's major semiconductor manufacturers are now openly calling for American and European chip makers, as well as smaller Japanese producers, to join them in the DRAM business.

Worldwide semiconductor sales

1988 total $54 billion (forecast)



Source: Integrated Circuit Engineering Inc.

"We want to have a healthy share of the(DRAM) market, not to dominate it," says Taizo Nishimuro, general manager of Toshiba's Semiconductor Marketing Division.

With a market share of over 30 percent, Toshiba is the leader in the One Megabit DRAM market.

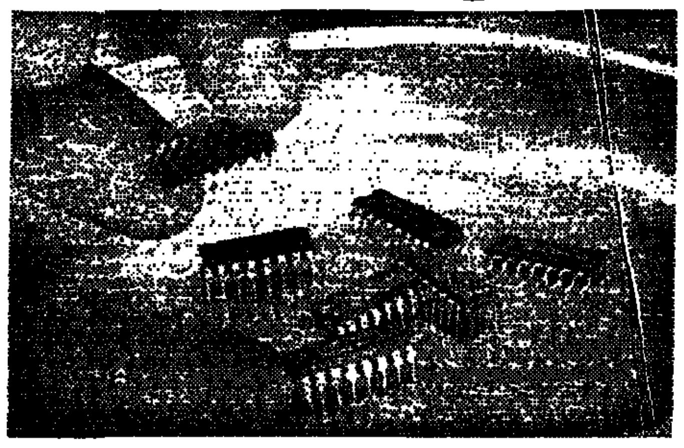
"It is our desire to have close to 25 percent of the market," he explains.In the meantime, however, Toshiba and other Japanese semiconductor producers are pouring capital into expanding production of DRAMs in an attempt to keep up with demand.

Toshiba will spend about Y80bn during the current fiscal year, much of it on DRAM plants and production equipment. The company aims to increase its production at the rate of one million units per month, rising to a level of 7m units per month by the end of the fiscal year in March, says Mr. Nishimuro.

Similarly, NEC, Japan's largest semiconductor manufacturer, is planning a major expansion of DRAM production. The company recently began construction of a new plant in Hiroshima, Japan, to make 4 Megabit DRAMs and is considering expanding its US production with another DRAM plant.

While NEC expects the DRAM shortage to be resolved by the end of next year, Toshiba is convinced that demand will exceed supply through 1990. Industry wide production will total about 180 million units this year, Mr. Nishimuro projects, but he estimates demand at over 250m units.

In 1989, the industry will produce 400m to 500m units, but computer and electronics equipment makers will be looking for 550m to 600m 1Megabit DRAMs, he predicts.



Driven by high growth in computer workstations, high performance personal computers, minicomputers, facsimile machines and copiers, Toshiba projects DRAM demand to grow to 900m units in 1990, with supplies of 700 to 800m units.

The shortage may be broken by a temporary balance, sometime early next year, says Mr.Nishimuro. At that point he expects computer manufacturers to adjust their production rates to match the availability of chips. The lull will be short-lived, however, lasting only a week or two, he predicts.

Mr Joichi Aoi, president of Toshiba: leading the One Megabit DRAM market.

As soon as it happens, latent demand for memory chips will surge as the computer industry tries to catch up with long overdue orders for products such as personal computer add-on memory boards, he believes.

Dominant role among worldwide semiconductor companies

1988 rank*	1987 rank	Company	1988 sales $m*	% change 1988-87
1	1	NEC	4,175	30
2	2	Toshiba	3,675	23
3	3	Hitachi	3,325	32
4	4	Motorola	2,960	24
5	5	TI	2,675	24
6	8	Intel	2,225	50
7	10	Fujitsu	2,025	47
8	5	Philips	2,010	25
9	11	Mitsubishi	1,900	44
10	9	Matsushita	1,875	16

* Forecast; source – Integrated Circuit Engineering Inc

Toshiba's view of the outlook for DRAM demand is not shared by all in the semiconductor industry. Indeed , many have predicted that the shortage will be resolved by the middle of next year. Coming from the leading supplier of 1 Meg DRAMs, however, Toshiba's analysis carries considerable weight.

Much will depend upon developments in the US personal computer industry, a major consumer of DRAMs and other types of semiconductor chips. Major US chip makers including, Intel, National Semiconductor and Advanced Micro Devices have recently reported slowing orders from some personal computer manufacturers, yet in Japan chip orders remain strong.

One explanation for this apparent contradiction may be that the DRAM shortage is itself forcing computer makers to cut back production and thus orders for other types of chips. If so, then the problem may be short lived.

If, however, the US personal

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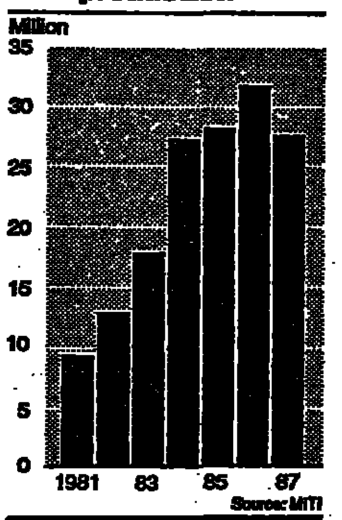
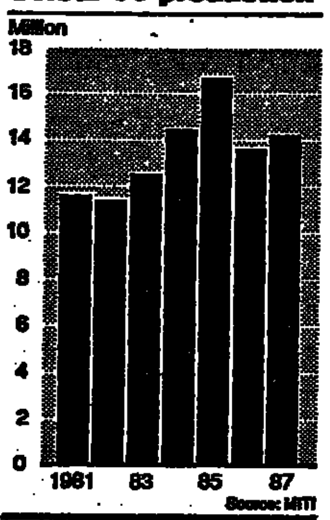
VTR production



Source: MITI

Colour TV production



Source: MITI

The issue of personal computers and lack of software standards

A significant problem

VISIT the offices of one of Japan's leading electronics companies and you might expect to see a personal computer on almost every desk, just as in the US and Europe.

Surprsingly, however, despite the Japanese enthusiasm for all types of electronic products, the personal computer has yet to become the standard business tool in Japan that it is in much of the rest of the world.

Language, cultural and technical issues have combined to prevent high growth in the Japanese personal computer market, while markets elsewhere have been booming.

Increasingly, however, the lack of software standards in Japan is being recognised as a major problem. Initially, the use of personal computers in Japan was precluded by the Japanese language with its thousands of *Kanji* characters.

Over the past few years, however, this issue has been resolved by the introduction of specially designed systems and software by several US and Japanese computer and software companies.

Still, it seems many Japanese businessmen are reluctant to use personal computers. The problem, they explain, is that they have no tradition of using a keyboard – whether it be a typewriter or a computer.

While in the US, where most high school students learn to type, and even in Europe where typing skills are generally assocated with clerical tasks, and personal computers have been widely adopted, Japanese businessmen still harbour a fear of the keyboard, they admit.

Another cultural factor, often ignored by personal computer companies attempting to sell in Japan, is the lack of space in most Japanese offices. A typical US or European-made personal computer would dominate the workspace of most Japanese office workers.

In spite of these issues, personal computers are gradually finding their way into Japanese offices, however.

Sales of 16-bit personal computers are expected to total about 1.25m units this year, according to the Electronic Industry Association of Japan. The industry group is, however, projecting virtually no growth in this sector of the Japanese personal computer market over the next three years.

The over-riding problem in the Japanese personal computer market is the lack of compatibility between computers from different manufacturers. While elsewhere, the IBM-compatible computer has become an industry standard, there is no equivalent in Japan.

Here, each of the major manufacturers has adopted a customised version of the Microsoft MSDOS operating system. As well as retarding the growth of the Japanese personal computer market, this has placed most Japanese producers at a significant disadvantage in international markets.

Attempts to establish an industry-wide standard in Japan, however, are gaining wide support in industry and are being encouraged by the Ministery of Inernational Trade and Industry, (MITI).

In the field of personal computers, the "Architecture Extended" or AX project, is one of the most important initiatives. Led by Microsoft, the US software company that developed the MS-DOS operating system used on most IBM-compatible personal computers, the AX project aims at establishing a standard version of MS-DOS in Japan.

To date, about 20 Japanese computer and software companies have joined the effort. Notably absent from the AX group, however, is NEC, which with an estimated 70 per cent of the Japanese 16-bit personal computer market, is a dominant force.

While NEC has itself effectively established a Japanese personal computer standard and gained the support of many software developers, the company has not been willing to allow other computer makers to 'clone' its personal computers.

A recent attempt by Seiko-Epson to market an 'NEC-compatible' personal computer, resulted in a lawsuit. Another Japanese effort to set software standards, the Tron Project, has recently been given a significant boost by the Japanese Ministry of Education, which has decreed that a Tron operating system will be the standard for personal computers used in Japanese schools.

While more than 40 companies, including some from Europe and the US, are involved the Tron Project, many are at best lukewarm in their support for this system to establish an 'open systems' computer environment for all types of computers.

In the 32-bit computer arena, which includes high-performance personal computers, computer workstations and mini-computers, Japan's MITI has put together another software standard effort called Super Sigma aimed at developing a Japanese language standard version of AT&T's Unix operating system.

The future of this effort is, however, clouded by the worldwide computer industry feud over 'open systems' with US, European and Japanese computer and software companies divided into two camps – one promoting a standard based on an AT&T version of Unix, and the other determined to base its standard on an IBM derivative of Unix.

The computer industry battle, which is largely based on competitive issues, threatens to prevent the establishment of a single software standard for the next generation of computers.

The personal computer market, however, provides a stark example of the problems that a lack of software standards can cause.

Louise Kehoe

International partnership in semiconductor production

Extraordinary alliance

IN THE Science City of Sendai, about 220 miles north of Tokyo, an extraordinary alliance of American and Japanese semiconductor technology is taking shape in the form of Tohoku Semiconductor.

This joint venture company, which is owned in equal shares by Motorola Corporation of the US and Japan's Toshiba Corporation, is the first of its kind in the semiconductor industry.

While international partnerships, product or technology licensing agreements, development coalitions and marketing pacts have become commonplace in the semiconductor industry over recent years, the Toshiba-Motorola venture is the first to establish a jointly owned and operated manufacturing facility.

The formation of Tohoku Semiconductor was announced in May 1987, at the height of the US-Japanese battle over semiconductor trade. Despite the difficult environment, and some political opposition in the US, however, the joint venture quickly moved ahead.

The rational for the formation of Tohoku Semiconductor was clear. Motorola, the second largest US semiconductor producer, and a leader in the field of microprocessors, lacked state-of-the-art memory chip technology. Toshiba, the number two chip maker in Japan, and the world-wide leader in the One Megabit DRAM (Dynamic Random Access Memory) market, was weak in microprocessors, which represent only about five percent of its sales.

What is more the companies have a long-standing relationship as suppliers of chips to each other. At Tohoku Semiconductor, both parent companies share their strengths. Plans call for the joint venture to produce memory chips designed by Toshiba and microprocessors designed by Motorola.

In what must be an industry record, Tohoku moved from ground breaking to production at its $280m world class wafer fabrication plant in just thirteen months. Shipments of memory chips began in July, and the company is now delivering One Megabit DRAMs, 256K SRAMs (Static Random Access Memories) and several types of microprocessors to its parent companies, says Toru Shima, president of Tohoku Semiconductor.

Tohoku fabricates the chips, which are then packaged, tested, and sold to the customers of each of the parent companies, he explains. Production is ramping toward a goal of three million chips per month, he adds.

Tentative plans call for Tohoku to eventually manufacture 4 Megabit DRAMs, which Toshiba recently began selling in sample quantities, and Motorola's latest 32-bit microprocessors.

With each new generation of products, however, the parent companies must first agree to share technology, Mr. Shima explains. Day-to-day management of Tohoku Semiconductor has been placed in the hands of Japanese managers.

The chairman of the joint venture is Toshiaki Irie, who also chairs Nippon Motorola, while Mr. Shima is the former general manager of semiconductor business planning at Toshiba. And while the Tohoku workforce includes 50 employees from each parent company, most of those supplied by the American company are also Japanese, says Mr. Shima.

This arrangement may have helped Tohoku to get off to a fast start by avoiding some of the inevitable problems of communication and different business styles, that exist between Americans and Japanese.

It raises questions, however, about Motorola's ability to make use of the experience gained at Tohoku throughout its own semiconductor operations.

For the moment, however, the primary goal of both parent companies is to "make the joint venture successful" says Mr. Shima. "That is my only purpose in life and I am very optimistic," he claims.

Ultimately, Mr. Shima sees Tohoku Semiconductor contributing to a resolution of the trade friction between the US and Japan.

"By sharing advanced technology and know-how we can create a good relationship," he suggests. Then should other foreign semiconductor manufacturers follow Tohoku's example and form joint ventures?

"Perhaps in other fields, not semiconductors. We dont want more competition," says Mr. Shima in a response that reflects the universal competitiveness of the semiconductor business.

Louise Kehoe

Case study in consumer electronics

Demand outstrips supply

Electronics store in Tokyo. Worldwide, Nintendo's video game cartridges sell in millions.

IN JAPAN, it is called the Famicom. In the United States it is known as the Nintendo Entertainment System. On both sides of the Pacific this new generation home video game system ranks as a major consumer electronics hit.

With its video game cartridges selling by the millions, Nintendo Co. Ltd. of Kyoto, Japan, has breathed new life into the fad that first struck the US in the early 1980s, and in the procetheory that despite their technological prowess, the Japanese lack creativity and software skills.

A 99-year-old playing card and toy company that launched itself into the computer age in the late 1970s with the forerunners of its current products, hand-held electronic games, Nintendo is hardly the typical Japanese electronics manufacturer.

Where several larger, and more technically sophisticated companies have failed, however, to make the "home computer" market materialise, Nintendo has achieved remarkable success.

The Famicom, or Family Computer, is connected to the television sets of one out of every three of Japan's 39m households. In the US, the fanatisism is almost as strong, with sales expected to top 11m by the end of the year and consumers anxiously awaiting the arrival of the latest game cartridges from Japan.

The secret, according to Nintendo's managing director Tokio Sotani, is the quality of the software, or games, offered for Nintendo's systems. Teams of developers, several inside the company, and as many as 80 third-party groups, most of them small, entrepreneurial companies, compete to produce the most original and exciting games, he explains.

Nintendo selects only the best for in-house production. Nintendo's most popular titles – "Zelda," "Super Mario Brothers" and "Mike Tyson's Punch-Out!" have each sold over 2m copies in the US alone since the Nintendo system was introduced in 1986.

In Japan, where Famicom has been available since 1983, sequels to these titles are also selling by the million. Orders for the latest "Zelda III," which was introduced earlier this year, have topped 4m units, says Mr. Sotani.

To maintain consumer excitement, Nintendo aims to limit the number of titles it produces to a relatively small number of 'blockbusters.'

"It is better to produce one million-unit seller than twenty that sell only 50 thousand units," says Mr. Sotani.

Yet Nintendo will be able to meet only a fraction of the demand for its products this year. A serious worldwide shortage of the memory chips which are used in its game cartridges has limited production of existing titles and forced delays in new product introductions.

"We can buy only half of the chips we need," complains Mr. Sotani. "We have guaranteed supplies until the end of the year, but after that who knows?"

Although Nintendo expects the chip shortage to ease by the middle of next year, the outlook is uncertain according to Japanese chip suppliers who represent the only source for the Mask Read Only Memory Chips used by Nintendo.

Alternative types of memory chips, available from US, European and Japanese chip makers, are too expensive for the game cartridge application, Nintendo maintains.Peter Main, vice president of marketing for Nintendo America, estimates that 1988 sales in the US could be ten to 15 percent higher if the company was not constrained by the chip shortage.

Nonetheless, he projects 1988 sales of $1.7bn, more than double last year's sales of $800m. European consumers will, however, have to wait for their opportunity to get hooked on the Nintendo rage. The company has indefinetely postponed a marketing push in Europe until it can increase production and satisfy demand in the US and Japan.

The danger of the chip shortage is that fickle consumers will tire of Nintendo video games before the company can fully capitalise upon its products current popularity. Yet Nintendo's problems are of the right kind, industry analysts maintain.

"Too many orders and the prospect of a decline in chip prices next year are 'good' problems," suggests Gideon Franklin of UBS Phillips & Drew in Tokyo. The chip shortage, which is common throughout the computer industry, may also prevent would-be competitors from making significant inroads into Nintendo's near monopoly in the market.

With 85 percent of the video game market in the US and an even higher share in Japan, Nintendo rules the video game business. A greater problem for Nintendo, however, is the impact of the deteriorating value of the US dollar.

With 53 percent of its sales now in the US, Nintendo's profits are significantly impacted by currency fluctuations. The company has so far been reluctant to raise prices for its hardware to compensate, although game cartridge prices for the most popular titles have risen in the US as retailers take advantage of overwhelming demand.

In Japan, Nintendo's challenge is to build upon the success of Famicom. In a recent joint venture with a division of Nomura Securities, Nintendo aims to build an "information service" network to include travel news, home shopping and stock market prices by linking Famicom to a central database through telephone hook-ups.

Nintendo has a major potential competitor, however, in a coalition also formed recently by Mitsubishi Corporation, the giant Japanese trading company. Mitsubishi's group includes Microcore, a data communications specialist company that has developed a communications adaptor for the Famicom.

In Japan the market for home information services remains largely untested. The mixed results of efforts by several companies in Europe and the US suggest, however, that the prospects for the Japanese ventures are very uncertain.

Also in Japan, Nintendo is planning to launch a successor to the Famicom next year. Using a more powerful 16-bit microprocessor the "Super Famicom" is expected to be capable of running more sophisticated game programs and to have higher quality graphics.

Originally scheduled for introduction this year, the new model has been put off until the middle of 1989 by which time, the company suggests, the chip shortage should have been resolved.

Nintendo has not yet decided, however, whether the Super Famicom will be compatible with the current model, a decision that may have a significant impact upon sales.

With export sales increasingly dominating Nintendo's business, however, the biggest question facing the company is how long the US video game craze will last. Nintendo is convinced that it can prevent a repatition of the spectacular decline of video games sales seen in the US in 1983-5 when sales plummeted from a high of $3bn to only $100m.

Atari Corporation, then the market leader, 'killed' the video game business by allowing the market to be flooded with poor quality games, Nintendo charges. By maintaining strict controls over third party software developers, Nintendo believes that it can ensure the longivity of its products.

This is to ignore, however, the fact that video games must compete with a wide variety of other 'entertainment products' – everything from movies to personal computers, toys and even books – a point well understood by fomer Atari managers.

While Nintendo appears set to top the list of Christmas favourites in the US for the second year in a row, few products have lived to win a third year's top rating.

With the European market still to come, however, Nintendo has plenty of scope for expansion. In the meantime, US shoppers are already scouring the stores in search of Nintendo games to put under the Christmas tree.

Louise Kehoe

Semiconductor production

Continued from previous page

computer industry is heading into a period of slower growth, then the balance of supply and demand in the DRAM market may quickly change.

The deepest concerns of the Japanese chip makers currently lie, however, in the politically charged issue of US-Japanese trade. Since the signing of the US-Japanese trade agreement in September 1986, Japanese electronics companies have been under intense pressure to increase their purchases of foreign-made chips.

For the "Big Five" Japanese electronics companies; NEC, Toshiba, Hitachi, Fujitsu and Matsushita, all of whom are major producers of semiconductors as well as consumers, this has meant sacrificing in-house chip production to further the cause of harmonious trade relations.

To date the impact of these efforts has been cushioned by high market growth. With market growth expected to slow to about 15 percent in 1989, however, the effects on semiconductor production divisions may become more evident.

With no resolution of the US-Japanese semiconductor trade battle in sight, Japanese chip makers are also wary of protectionist sentiments in the US Congress, although they were happy to see George Bush elected to the White House.

Europe's plans for 1992 also represent a threat to Japan's chip industry. The recent EC ruling that only chips fabricated within Europe will be free of import duties is a significant problem for all but one of the major Japanese producers, NEC, which has a factory in Scotland.

Other companies are assessing the situation, but no immediate plans for new European plants have been announced. With the rising cost of chip production in Japan, relative to other countries, due to the appreciation of the Yen and high land costs, Japanese semiconductor producers are being forced to take a "global" view about which few have yet come to terms.

While most Japanese chip makers have assembly and test operations outside Japan, their experiences with establishing fabrication facilities abroad have been difficult.

A major challenge facing Japanese semiconductor manufacturers in the 1990s will be their ability to transport the expertise and determination that has won them a leading role in the world semiconductor market over the past decade to countries with very different social and business cultures.

THE FASHION BUSINESS

Very much in the Western style

IN THE *couture* capitals of the world, Japanese high fashion design is virtually synonymous with asymmetry.

Here, coming down a runway, is a skirt, long in the back and outrageous in the front. There, on a mannequin, a sweater has three sleeves, one for wrapping the neck. In the pages of a magazine, a jacket buttons at the throat, under the arm and on the thigh, but never down the middle.

The Japanese fashion industry does business much the sameway: successfully and with an asymmetry odd to a mind accustomed to the business practices of the West. The rag trade in Japan is a business hot from the enthusiasms of its very young customers yet cool from the kind of consensus decision-making that characterises the country's business dealings in general.

It is a system that nurtures young designers while at the same time requiring them to bear much of the financial risk of the business. And it is a point-of-view that ultimately looks to Europe for final certification, seeking approval of press and buyers in Paris and, when it is given, doing business very much the Western way.

The Japanese began their latest love affair with Western clothing after World War II, but it wasn't until the 1980s that the scene began to sizzle for high fashion.

Oddly, it was *not*, as in the West, the middle-aged wives of arbitragers and society dames, who turned up the heat, but college students and unmarried, working people in their 20s.

When the disposable income of the average Japanese family began creeping up, early in the decade, parents, themselves locked by society into correct little dresses and the salaryman's blue suit, disposed their excess income on their unmarried children. College kids and young adults began appearing on the street in Y80,000 jackets, made not only by top Japanese designers but also by the best of Europe.

"Twenty-year-olds are wearing Chanel – *real* Chanel," says Nobuyuki Ota, executive director of Tokyo's 40-member Council of Fashion Designers. Now with a new decade approaching, Tokyo is a city filled with department stores that sparkle as brightly as any Bloomingdales.

'Fashion buildings' – high-rise shopping-centrelike amalgamations of expensive, open-front boutiques – dot the city's commercial hubs. In residential neighbourhoods, a *mom-and-pop* vegetable stand may overlook a small, chic clothing store specialising in what the Japanese call DC (design and character) styles.

Molding young perceptions of fashion are several television shows regularly covering the scene and more than 30 magazines boasting circulations between 150,000 and 300,000 monthly.

Every April and November, more than 40 high fashion designers show their new ideas to buyers, the press and knots of customers, usually all wearing the designers' current styles. It's a business in which one of Tokyo's top three fashion designers, Rei Kawakubo of Comme des Garcon, can have sales of Y10bn annually, and a relative newcomer such as Junko Shimada, in business only five years, can earn Y8bn.

The route that clothes take from designers to stores and customers is not the relatively simple buy-and-sell one of the West. The Japanese system is based on the principle of consignment, placing risk most heavily on producers, not retailers, as in the West. But the Eastern way of doing business is often by strong loyalties and consensus decision-making.

The showroom of a Japanese designer in the days after a collection opens is crowded with buyers working the racks rather like shoppers at a bargain sale. Women sometimes slip skirts on over their own leggings to check shapes, and they scribble busily in order books before retiring to make their buys at tables littered with calculators and the inevitable orange soda, served alongside tea in most Japanese offices.

In the US and Europe, store buyers select some styles and reject others according to their knowledge of customer-preferences. They generally order a large supply of medium-sized products and fewer small and large versions. When merchandise is shipped once or twice a season, it will be paid for directly.

"The overseas buyer is very, very serious," says Yasuo Kojima, a top manager for Issey Miyake International. "They sometimes come three or four times, and when they finally write an order, they look very carefully at the clothes with models. I understand this approach, because they are taking the risk. Whatever they buy, they have to pay for it all."

Not so Japan. Here, buyers often select a representative *sample of each of a designers'* styles and take guidance in their selection from the designer's staff. They usually order an equal number of sizes per style.

Shipping occurs five or six times in a three-month season, beginning at the start of the period, not several months in advance as in the West.

While some money may change hands between store and designer in payment for the clothing, both sides know that when merchandise is not selling, it will be returned to the designer with apologies on both sides. Often it will be replaced with new merchandise of greater value, once a relationship has been established between store and designer.

"The weight of responsibility is less for the Japanese buyer. They are not accountable for what they buy, like the foreign buyer," says Chigako Takeda, a spokesman for Kawakubo's Comme des Garcons. Accountability rests, rather, with the designer himself.

In response, Japanese fashion designers often become as much retailers as wholesalers, taking maximum risk for maximum profit. They own free-standing shops, sell franchises and also staff, stock and design boutiques inside department stores and fashion buildings.

Kawakubo, for example, is a pioneer of the practice and owns or franchises 249 retail outlets in Japan and 84 internationally. She employs a staff of 300, and, indeed, a third of the 300 buyers who crowded her showroom for the spring collections were Comme des Garcon employees, making their buys in consultation with her central staff.

Since stores have little to lose under the Japanese system,it is relatively easy, fashion professionals say, for a new designer to persuade a store to show his product. Once a designer is in the door, he may not have lifetime employment like a Sony worker, but he will have a lengthy commitment even as he experiments and, perhaps, fails.

"It's a very kind system for both sides," says Akira Mishima, a fashion analyst and consultant who has advised the Seibu department stores. "Americans and Europeans are *nice individually*, but *so dry* when it comes to business. A Japanese department store says a designer has great potential and so will keep him alive."

But too much kindness can stifle, if not kill, says the Fashion Council's Ota. Indeed, the Japanese high fashion scene at the November spring-summer collection shows, seems to have more than its share of designers with nothing new and much old to say.

Ota is particularly critical of buyers for not using more discernment in their selections, thereby guiding designers.

"These stupid buyers spoil designers," he says."Every article is bought; every collection is great."

But some Japanese designers do strive and some twice each year set themselves against the best in the world. Eight Japanese designers, led by Kawakubo, Miyake and Yohji Yamamoto, show their collections in Paris in the company of European designers such as St. Laurent, Lagerfeld and Givenchy.

Success with the press and Western buyers in Paris is considered a world-class achievement by the Japanese – "it's a shame, but compared to Paris, our eyes are not so acute," says Mishima. "The test in Paris is: 'Is it catholic?'"

While in Europe, the designers from the East also take orders from the buyers of the West. These days, the challenge is as great as it has ever been. Designers who once had to establish their reputations with buyers and the press are now struggling with the strength of the yen against other currencies. Issey Miyake, for example, has seen his foreign business decline from 20 per cent of total sales to ten percent over the last two years as the value of the yen has surged.

But that does not mean the Japanese are conceding the field – instead, they are adapting. Although specially designed Japanese fabrics and careful manufacturing techniques have long been hallmarks for the country's high fashion designers, fashion houses are beginning to buy and make elsewhere.

Kansai Yamamoto, a 'hot' designer in the '70s but troubled in the '80s, has focused his hopes on KBS, a moderately priced sportswear line designed for the American market and manufactured in Hong Kong.

"From the marketing side, if we are in Tokyo, we can't keep an eye out for new clients," Kojima says. "Now that we are in Paris, we can contact clients every day."

While the hurdles may be high, the Japanese are still jumping – "we don't feel any reduction in the emphasis on international business," Kojima adds. "We should be an international label."

Sandra Earley

Designer Midori Yamanaka is overwhelmed with bouquets of flowers from admirers at the end of her Spring fashion show.

Pictures by Franco Rossi

Designs for Spring from Norihisa Ota of C'est Vrai.

'Work less, play more,' says the Government

Leisure boom starts new rush

THE JAPANESE are constantly being hounded these days to work less and play more. If it is not the doctors worrying about salarymen's heart attacks, it is the Government trying to stimulate the domestic economy and reduce the trade deficit.

At long last, there are signs that they are beginning to take at least part of the advice. There is, for example, no sign that the Japanese are working less. Statistics on hours worked per year suggest that they are, if anything, working slightly longer hours than a few years ago.

What *is* new is the way they use the spare time they have, attacking golf, skiing, yachting, international tourism and other consumption oriented activities with the same vigour that they are famous for applying to their work.

The rush is such that the Ministry of International Trade and Industry (MITI), which is now actively promoting the leisure business, estimates that the total leisure market will double to Y110,000bn a year by the turn of the century.

The phrase 'leisure boom' has already entered the Japanese language, and it has provoked a rush among leading businesses to get into the leisure sector in some way. Golf courses, marinas and ski resorts are being developed at a breathtaking pace, bringing new life to hitherto depressed areas and helping ease the appalling congestion at existing leisure facilities.

Among the most enthusiastic developers are shipbuilding and other heavy industrial groups who are delighted to find new profitable uses for their large landholdings. Sumitomo Heavy Industries, for example, has launched a Y30bn project at an old shipyard at Yokosuka in Tokyo Bay that will include hotels, condominium residences, a marina and shopping centres.

Nippon Steel is building a Space World theme park on land near its Oita steelworks in Kyushu.

Many other large companies with no obvious historical connection to the leisure business see it as a profitable diversification. Matsushita, the electronics giant, for example, has opened a golf and hotel complex in Niigata prefecture near Tokyo and is about to open a ski resort there. Nissan Motor is planning to set up a 'mobility park' in Shizuoka prefecture near Tokyo where people can go with their trendy four-wheel drive cars and play around in ordinary terrain.

Meanwhile, the big traditional resort operators, such as Tokyu and Seibu are far from idle. Seibu Saison last year entered a joint venture with France's Club Mediterrannee and opened a ski resort in Hokkaido. Tokyu is building a whole new resort town at Tateshina highlands.

Property and construction companies are piling in, too. Mitsui Real Estate and others are behind the massive development of a so called urban resort at Maihama on Tokyo Bay centred around Tokyo Disneyland. Daiwa House Industry, a leading housebuilder, is building a network of leisure resort complexes all over the country.

Kajima, one of the leading construction groups, is building a vast Y30bn resort complex in Gunma prefecture, near Tokyo, that is to be centred around a huge dome covered watersports arena offering swimming, surfing, wave-making equipment, waterslides and a water current pool. Outdoors, the complex, to be completed in 1992, will offer a golf course, tennis courts and a skiing area.

To the outside analyst, there would seem to be a glaring inconsistency in all this activity. If the Japanese continue to work long hours, when are they going to use the leisure facilities?

The answer is that most of the developments are being made with the average customer's short two or three day holiday in mind. The developers' assumption is that the Japanese salaryman will go on working long hours but, because he is now wealthy, he will spend more of his weekends seeking leisure outside the home, rather than staying at home and watching television and trying to catch up on lost sleep from overworking during the week.

Also, the one critical change that is beginning to take place in Japanese working habits is the abolition of Saturday working. From next February, Tokyo's financial markets will no longer work on Saturdays, and legislation is in the works that would oblige the Government and other business sectors gradually to follow suit.

Ashley Ashwood

Japan's leisure market could double to Y110,000bn a year by the turn of the century. Above: crowds throng Takeshita Street — Tokyo's 'Carnaby Street' — in the Harajuku area.

Saturday sessions at schools are also under scrutiny, although most parents oppose the elimination of Saturday morning classes.

It would be difficult to exaggerate the importance of this change. At present, only 27 per cent of the Japanese workforce works a five day week. According to MITI, the average annual spending of those working a five day week is Y137,000 higher than that by those working in excess of five days. Thus, the weekend, as we know it in the West, will soon become a reality for most Japanese people.

The Tokyo Disneyland complex is already a roaring success on this basis, with adjacent hotels filled to capacity on weekends and holidays. Other developers are counting on a similar success. Another question is whether or not the current development boom is just leading to an equally big bust. There is not much prospect of Japan's economy weakening to the point that the average consumer's disposable income will decline in the near future. On the contrary, all the indications are that real earnings will continue to rise, wealth will become more widespread and taxes will, if anything, decline.

Moreover, the high price of housing means that many people have given up the idea of owning their own home and so they are content to spend more money on other things, including leisure.

On the other hand, the possibility of overcapacity in the resort sector has been raised by some analysts. The strong herd instinct in Japanese industry has already become famous in many sectors and seems to be occurring in the leisure sector as well. Many of the developments are centred around golf courses, ski resorts and marinas.

However, the potential demand is equally exciting. For example, according to the Ministry of Transport, only 200,000 people in Japan own boats, including yachts. However, the number of people holding small boat and yacht pilot licenses (a requirement in Japan) has risen rapidly in the past few years to reach 1.09m. The ministry forecasts that boat-ownership will soar to over 1m by the turn of the century. With figures like these, the enthusiasm of developers for marinas and of machinery manufacturers such as Yamaha, Kawasaki Heavy and others, for making boats becomes more understandable.

It all seems very promising, both for the suppliers and the consumers of leisure products and services. Whether it is good for the Japanese economy, too, remains to be seen. Statistics indicate that young people in particular would rather work less and play more, than work more and earn more.

Projects planned

☐ Categories of leisure and recreation facilities planned by local governments:
☐ Golf courses, 138
☐ Tennis courts, 177
☐ Museums, 73
☐ Vacation home sites, 52
☐ Hotels, 251
☐ Ski areas, 66
☐ Beaches, 69
☐ Marine sports sites, 85
☐ Convention centres, 39

Source: Japan Regional Economic Research Institute, Nihon Keizai Shimbun, September, 1988.

Ian Rodger

Leisure industry case study by **Ian Rodger**

Daring strategy

MR NOBUO ISHIBASHI likes to recite the comparative statistics of Japanese working habits – "the Japanese work 2,150 hours a year, West Germans only 1,600 hours," he says.

Mr Ishibashi, who is chairman of Daiwa House Industry, one of Japan's leading house builders, believes that those statistics indicate that Japan's leisure industry is about to experience an unprecedented boom.

"We have to get down to the West German level, and that means there is going to be an explosion of leisure," he says. "Five years from now, everyone in Japan will have a two-day weekend, and they will want a place to go to."

Mr Ishibashi was one of the first of the current generation of Japanese businessmen to have recognised the potential of the leisure sector and, as a result, Daiwa House looks well placed to be among the main beneficiaries.

He says he decided to get into the resort industry 10 years ago because, as a housebuilder, he could see that once people had acquired a house, they would start thinking about a second home or using their disposable income for holidays in the country.

In typically cautious Japanese fashion, Daiwa House built one resort complex and then observed the progress for five years before proceeding further.

The complex, which was built on the scenic, but remote, Noto peninsula on the Japan Sea coast, consisted of a hotel and a set of condominium homes, all centred around a golf course and a group of tennis courts. The idea was to establish a club-like atmosphere (membership is required) and appeal to couples in their 30s and 40s with children.

Some would come for short stays in the hotel, others would buy the condominiums and return frequently.

The really daring element of this strategy was building in a remote area. Because they take very short holidays, most Japanese people do not like to travel long distances to get to their resorts. Also, the country's highways are hopelessly overcrowded.

Mr Ishibashi figured that by developing in remote areas, his costs would be significantly lower than what he would face near the big cities. Not only was land inexpensive but labour was also cheaper. Daiwa House would take on the local people, train them to be chefs and managers and return them to work near their homes.

Thus, it could offer a high class service at reasonable prices. For example, wedding receptions cost roughly Y30,000 per person at city hotels, but only Y10,000 at Daiwa Royal Hotels.

The concept caught on – and Daiwa House is now rapidly expanding the network. Today, there are 14 resorts in operation, and the group expects the number to rise to 40 within five years.

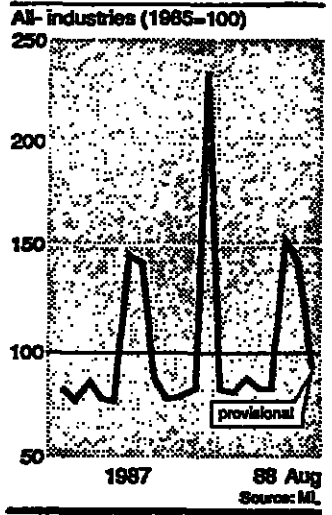
The company's leisure division, which now accounts for about four per cent of group turnover, is expected to be profitable within two years.

Meanwhile, the resorts have brought about significant increases in land values where they are located, including, of course, Daiwa House's land holdings.

Mr Ishibashi is doubtful that the formula would work outside of Japan and, for the moment, he is content to try and keep pace with the existing programme. Also, there is no danger that the group will run out of development opportunities within Japan. Mr Ishibashi is "inundated" with requests from local governments offering all sorts of incentives for Daiwa House to establish resorts in their areas.

Wages (real)

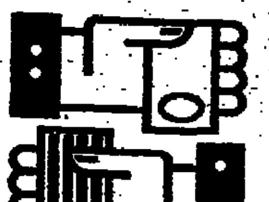
All- industries (1985=100)



Recent surveys indicate that young people in Japan would rather work less and play more, than earn more and work more. Above: some of the hundreds of thousands of people jostling through the streets of Ame-Yoko for year-end shopping.

SECTION IV

FINANCIAL TIMES SURVEY



Young professionals are increasingly attracted to the region, with its varying challenges and wide spread of sectors, writes **Ian Hamilton Fazey**. And the expansion of services is vital to an area which, in turn, is one of the engines of the national economy.

Recovery and opportunity

THERE HAS been an explosion in financial and professional services in Yorkshire and Humberside in the last few years, which looks to be of strategic significance for economic development in one of Britain's more important regions.

The test of whether it is so significant lies in the answer to the following question. Is there now a stand-alone, independent financial industry, with locally-based professional services needing little or no help from outside?

If there is, the Yorkshire and Humberside economy may well be on its way to a greater degree of economic independence than even its most ardent chauvinists have assumed it had in the past.

It would mean, for example, that much more growth could be financed locally, and that much more corporate decision-making would also be local — an increase in the region's ability to pull itself up by its own bootstraps.

This is important in a wider national context, because Yorkshire and Humberside, with 5m people, already accounts for 9 per cent of gross domestic product and is one of the engines of the British economy.

The question is also relevant to the regeneration of the north. Manchester — already acknowledged as a stand-alone financial centre — services the north-west and also reaches into Yorkshire.

With the north-west accounting for 11 per cent of GDP and the M62 corridor between the M6 and the A1 — in effect, the industrially and commercially diverse counties of Greater Manchester and West Yorkshire — showing strong economic recovery, the ability of this major section of the north to stand on its own feet could produce its own ripple effect towards the more peripheral and troubled areas around it.

The regional economy is strong in West Yorkshire, because there are thousands of private companies, many of them medium-to-small, that spin out other entrepreneurs. The spread of sectors is also wide, so that ups and downs tend to cancel each other out.

In South Yorkshire and Humberside there is a gradual recovery from the traumatic effects of steel, coal and fishery closures. A new generation of smaller companies is emerging, but it could take up to a generation to replace the lost jobs.

The effect of all this shows in differential unemployment rates, particularly among men. The overall rate for the region (9 per cent) looks promising until male unemployment in South Yorkshire is revealed at nearly 17 per cent and in Humberside at 13 per cent.

In West Yorkshire 11 per cent of men and 5.3 per cent of women are out of work, but closer examination shows that Leeds' male unemployment is now under 10 per cent — a sharp contrast to Rotherham and Mexborough in South Yorkshire, where the figure is 20.6 per cent.

Much, then, depends on the recovery of the West Yorkshire economy, which the quarterly surveys of the region's chambers of commerce has shown to be continuing, though faltering slightly at present under the impact of interest rates and the strength of sterling.

This is the big local market for financial and professional services, its core made up of quoted companies headquartered in the region. Their spread reflects the uneven nature of the region's recovery, however.

Below this stratum is a much bigger one containing hundreds of private companies. There is a large market here for corporate finance and development capital, which has prompted rapid growth of financial and professional firms offering such services.

There has also been a surge in mergers, acquisitions, contested takeovers and flotations in the last two years. Increasingly, the financial, broking, legal and associated services at the Yorkshire end have been provided locally.

Thrusting Yorkshire companies like Norton Opax, John Waddington, the BBI Group, FKI and Spring Ram are examples of the sort of client companies on which Yorkshire professionals have honed their skills.

The cut and thrust of real takeover battles or tight negotiations to get the best prices all round in management buyouts have produced professionals who can take on anyone.

However, many London firms of professionals have underestimated the capabilities of Yorkshire opponents, according to Mr David Wilkinson, the director of 3i's Leeds office. "The professional community is better than most expect," he says.

Does the fact that the region can field a winning team of professionals in such situations necessarily mean there is self-sufficiency in financial and professional services generally?

Critics point out that Leeds may contain many accountants, for example, but that they are subsidiaries of the London-based giants. There is something in this, but there is another side to the story.

Peat Marwick McLintock has its national building societies operations based in Leeds; Coopers & Lybrand runs its growing, specialised services in urban regeneration from the city. Half of the income of Touche Ross's Leeds practice comes from one-off work generated locally in corporate finance, mergers and acquisitions, and management buyouts.

All sales are local in the end, whoever sells the service, and all the professionals fit into a whole. Indeed, if the big eight accountants were not present, Leeds would be thought deficient, in the way Liverpool is.

Where self-sufficiency is clearly apparent, however, is among the solicitors. These are regionally based firms, many of them giants. They are run by leading local lights like Mr Alan Bottomley, of Hammond Suddards, and though they may have merged among themselves to become big, their names remain the boardroom equivalents of household words among the region's industrial and commercial leaders.

Inevitably in Yorkshire, regional chauvinism has been a factor in their growth. "Yorkshire people don't like going to London for help if they can avoid it," says Mr Peter Coles-Johnson, director of Leeds Chamber of Commerce and secretary of the regional association of chambers.

Moreover, they did not always fare too well if they went to London, according to Mr Bottomley, who says that even a £50m-£100m public company is small beer by London's international standards. Increasingly, all of the work involved has been taken on locally. Mr Bottomley's acting for FKI, in its take-over of Babcock, is one example of the nationally significant level of some of the work involved.

West Yorkshire, and Leeds in particular, is the region's big local market for financial and professional services. Debbie Osborne

Yorkshire & Humberside

FINANCIAL and PROFESSIONAL SERVICES

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There has even been an unexpected spin-off. As Mr Wilkinson, of 3i, explains: "Companies in the south may use a firm up here to do some local work. They then see the quality of that work while discovering that fees are very reasonable because overheads up here are much lower. They than start asking themselves whether they should be sending much more work up here."

The results of this are already beginning to show. Booth & Co is Leeds' biggest firm of solicitors, with 25 partners and 250 staff. It has acted for Yorkshire Bank for more than 100 years.

Mr Nick Butler, a partner in the companies and commercial department, says: "We operate a top-grade service at a much more reasonable price. We can give a top service, too, at a higher level from within the practice. We are pulling quite a lot of work out of London, with four large City institutions now instructing us."

Mr Jeffrey Roberts, an associate in the litigation department, says: "The major change is that the City has perceived that a few of the big firms up here can do the job. That, plus half-prices for our services, has made all the difference. We are still profitable, by the way, so don't equate our prices with cheapness."

The message has also got to some of the professionals themselves — a third of the solicitors at Booth & Co used to work in London.

One other sector shows how far the financial industry has developed — venture capital. Only six years ago Britain's venture capital industry was almost exclusively centred on London, with all the implications that carried for economic development in the regions.

Since local knowledge is needed for venture capitalists to make the best deals, it followed that London and the south-east had the lion's share of the money.

There is now a network of more than 10 venture capital funds based in Yorkshire and Humberside, with more on the

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The business environment: good in parts, with unemployment falling everywhere

Untying the 'branch economy' label

THE LATEST unemployment figures are a curate's egg of a guide to the state of the Yorkshire and Humberside economy. Things are good in parts; and the figures emphasise the region's strengths while betraying its weaknesses.

The region contains nearly 5m people and is made up of four counties – North, West and South Yorkshire, together with Humberside. Unemployment is falling everywhere, but in North Yorkshire it is already down to an overall 6.7 per cent.

West Yorkshire, which has 40 per cent of the region's population, is the next best off, with a rate of 8.8 per cent. This also happens to be near the average for the whole region. However, things are less buoyant in Humberside, where the figure is 10.6 per cent and South Yorkshire, where it lags at 13.4 per cent.

It is the disparity of unemployment rates which helps explain how the region is able both to confirm and refute misconceptions and prejudices about the north of England.

Humberside and South Yorkshire have for decades suffered from the "branch economy syndrome" of a dependent workforce in an anti-entrepreneurial environment of large employers in old industries such as coal and steel.

In contrast, North Yorkshire is largely rural and comparatively rich. There is little heavy industry and places like Harrogate and York confer a well-heeled image that people from the south can feel comfortable about.

Meanwhile, West Yorkshire has the most broadly-based economy, with a spread of employment, in textiles, engineering, manufacturing, printing, packaging, distribution, construction and financial and professional services.

Understandably, therefore, it is West Yorkshire which is the great engine of the regional economy, and its largest city, Leeds, which is increasingly the centre for servicing it. The county is in itself the biggest single refutation of any view of the north as a branch economy of the south.

The region houses the registered offices of 136 quoted companies, while several others have their main management and operational headquarters there. West Yorkshire has 81, compared with 28 in South Yorkshire, 15 in North Yorkshire and 12 in Humberside.

The bulk of these have annual sales worth tens of millions but 31 turn over in excess of £100m a year. Some are real giants, such as Asda, the food retailer, which turned over £2.7bn in 1987, and Northern Foods, the food processor, with sales of £1.35bn.

West Yorkshire also has the M62. Although this runs from Liverpool to Hull, it also runs through 35 miles of countryside between the A1 and the Humber Bridge, causing a discontinuity in the motorway's emergent role as a increasingly important economic conduit for industrial bustle and wealth-creation.

Towns and cities that feed into it include Leeds, Bradford, Halifax and Huddersfield, places which also house hundreds of substantial companies. Many are family-owned, but many have a wider spread of shareholders, making them unquoted public companies.

Such medium-sized businesses encourage entrepreneurship, as research by 3i proved in the similarly structured Greater Manchester economy last year. West Yorkshire is therefore proving fertile ground for growth.

South Yorkshire, hit by closures in the steel and coal industries, is moving away from monolithicism towards a similar type of structure. Its strength here is a skill-based workforce of adaptable people.

The unemployment figures tell the tale. In Calderdale, where Halifax is, it is 7.7 per cent, slightly better than Leeds' 7.9 per cent. Bradford and Huddersfield have rates of 9.3 per cent and 8.1 per cent respectively. Sheffield (11.7), Doncaster (14.6), Barnsley (14.3) and Rotherham (16.2) are a stark contrast.

However, it is male unemployment rates which are the real indicators of where restructuring is the most difficult. *This is where coal and steel closures have hit hardest* and where it may well take half a generation to grow a broader mixture of businesses by size and sector.

South Yorkshire is worst hit, with male unemployment rates

West Yorkshire, with its broadly-based economy, is the great engine of the region

of 20.6 per cent in Rotherham, 18.7 in Barnsley, 17.6 in Doncaster and 14.6 in Sheffield.

By contrast, North Yorkshire has male unemployment rates of only 5 per cent in Harrogate, Malton and Ripon, with Whitby – hit by fishery closures – its only blackspot at *17.4 per cent.* In West Yorkshire the male rates are in many cases below 10 per cent and falling fast.

This diverse economic structure, coupled with current attempts to change it, helps explain why financial and professional services are emerging rapidly as a major industry in the Yorkshire and Humberside economy.

So does the process of economic recovery itself in the better-founded areas. This is driving the fast expansion of many businesses, which demand increasingly more professional help and advice as they grow.

The services were already *there because of the infrastructure* of quoted public companies needing local, but top-notch service in accountancy, finance, banking, the law, insurance, a wide range of marketing and management consultancy, and stockbroking.

From this client base the professional firms have been able to pay basic overheads – in any event much lower than in London, where people used to have to go for a similar quality of service – and gather themselves for their growth.

Much of this is coming from the even bigger market of unquoted public companies and private, family-owned or owner-managed ones. There is ample opportunity for professionals to sell their services in corporate finance, development and venture capital, taxation matters, mergers, disposals, *acquisitions, and all types of* consultancy.

This is encouraging entrepreneurship among the professionals themselves. Many are doing a lot of one-off, non-repeatable business. However, this in turn has led many into other one-off or even repeatable work later on, so they say it is always worth doing.

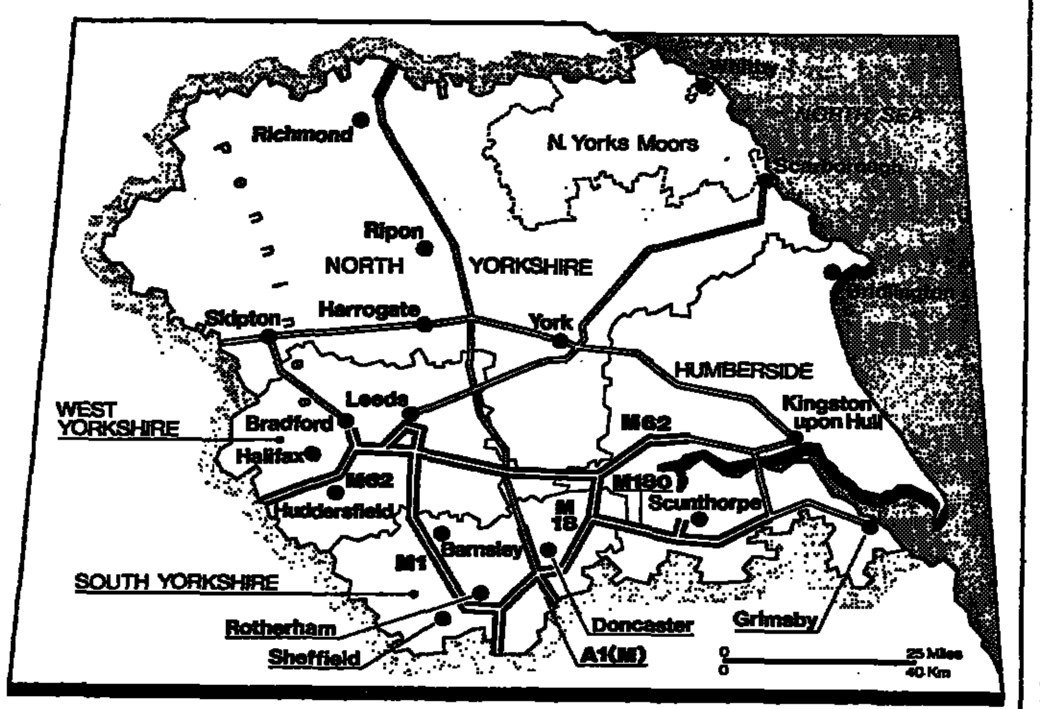
Indeed, the growth of the financial and professional sector itself underlines their struggle to keep up with demand. The Yorkshire and Humberside Development Association (YHDA) measured this recently by analysing the trends in job advertising in the Yorkshire Post during selected Septembers.

There were 10 display advertisements for accountants in September 1978. This dropped to five in 1983 but was at 40 last year and 76 this year. The *legal* profession figures for the same years were zero, zero, two and 21.

The total figures for all sectors – involving all types of *professionally qualified people* wanted in sales, engineering, technical fields as well as service industries – were 175, 100, 250 and 500.

These figures do not take account of the extensive grow-your-own policy now being pursued by most leading firms. Intakes of graduates are up and training is becoming highly organised.

Ian Hamilton Fazey



THE CLEARING BANKS

A good business mix

ASK A Yorkshire bank manager how business in his region differs from the national pattern, and he will probably reply that, by and large, it doesn't.

Ask him how Yorkshire customers differ from the national average, however, and he will be quick to mention their thrift.

Ever since the 19th century, Yorkshiremen have been savers. Between 1975 and 1986, for example, although wealth per head fell slightly when compared to the UK average, savings per head rose from 2 per cent above the UK average to 88 per cent above it in Yorkshire and Humberside.

By comparison, savings per head in the south-east fell from 81 per cent of the UK average to 43.7 per cent over the same period. "The poor fellows in the south-east have to spend most of their incomes on mortgages these days," explains an official at Halifax Building Society when asked for an explanation.

Be that as it may, with only *8 per cent (4.9m) of the UK* population, the region contributes about 16 per cent of the overall savings of the UK economy.

"This is good banking country," says Mr Arnold Fear, deputy regional director for National Westminster in Leeds. "You have such a mixture of business here, with financial services in Leeds, industry in south and west Yorkshire, with Sheffield reviving quite fast, and then docks at Hull, and northwards you *have tourism and agriculture.* NatWest maintains its full range of services here, including an international office, excepting only a stockbroker business."

Business is scattered between different towns which are jealous to preserve local identities and do not take kindly to being administered from a rival centre, even if it is only a few miles down the road. This means that banks which want to open up centres for small businesses have to take local feeling into account. An attempt by one of the clearers to have Keighley businessmen travel to a business centre in Bradford is said to have *caused great disgruntlement,* even though the towns are only a dozen miles apart.

There are marked variations between the strengths of the banks in each town. Midland, for example, is strong in York and Hull; Barclays in Bradford; and NatWest in Leeds and Sheffield. Lloyds, however, remains something of an outsider in the region, compared to the other four big clearers, with around half the number of branches of the other three. Yorkshire Bank competes most directly with the clearers in Pontefract and Wakefield.

These local strengths derive from roots here which may go back over 100 years. Midland *Bank's Parliament Street* branch in York was once the York County Bank and still handles several major accounts in the city, including Rowntree, because of this connection. NatWest has inherited the mantle of the 19th century Beckett's Bank in Leeds. One of the more pleasant duties involved in running the main Leeds branch of NatWest is to give silver salver luncheon parties every few months to firms which have been banking with the branch for 100 years. There are one or two 125th anniversary parties approaching.

Many links between banks and firms are believed to go back much further, but have been obscured by changes of name or mergers.

"We are relationship bankers," says Mr Fear. We don't want to be transaction bankers simply doing individual operations on a one-off basis. The quality of advice we give, *especially to small businessmen,* is very important to us."

Developing small businesses has been an important aspect of regional banking over the last two decades as many traditional industries left the market, being replaced by new ventures around Leeds,

Business is scattered between towns that are jealous to keep local identities

Bradford, and Sheffield. The banks recognise that the future prosperity of the region, and of their *branches in it,* depends on the entrepreneurial success of its inhabitants. Several believe that a point has already been reached where Leeds can compete effectively in financial services with other regional centres and may have displaced Manchester as the financial capital of the north.

However, Yorkshire Bank has resolutely stood out against the tendency to hive off corporate and *small business* activity from mainstream branch operations. "We want our *branch managers to* have all the contact they can with business customers," says Mr Graham Sunderland, general manager of Yorkshire. "When we have businessmen in here at head office to talk with them over lunch, we would always make sure that their branch manager is here too."

There are those who feel that Yorkshire Bank's approach suits the small businessman better than it does the larger one. "You get the impression sometimes that *businesses* feel they have outgrown Yorkshire Bank," says one Leeds businessman, "especially if they are doing a sizeable amount of export business." Mr Fear would agree. "Commercial customers want one of the clearing banks," he says "to enable them to tap the branch network of the major UK banks".

In the retail market, there is a clear division in the market between TSB and Yorkshire Bank on one side, and the big *clearers* on the other. TSB and Yorkshire's customers tend to be small savers. There are still those who remember that Yorkshire Bank was once the Yorkshire Penny Bank and that it is only in the last 30 years that it has evolved away from its savings institution origins. The big clearers believe that they have the upper end of the *retail market, what Mr* Fear describes as "the quality accounts". Their much larger national branch structures mean that they can reach *customers* that the more local bank cannot – those who move into or away from the region, for instance.

Times have changed, however, when it comes to savings. The big clearers would nowadays like to tap more of the flow of savings which still go to the building societies, and hope that improved deposit account products will enable them to achieve this.

Despite their thrifty image, however, Yorkshire and Humberside bank customers are not adverse to new financial products and services. Yorkshire *Bank led the way* in the early 1960s with its personal loans. Yorkshire Bank, as well as two building societies, have reported a strong local response to the Visa cards that they have begun to issue in the last few months.

Several banks have now opened automated branches in the region. Midland has put the largest of its 100 "self-service branches" in its Parliament Street branch in York, and another in central Leeds.

David Barchard

International banking: a signpost, rather than a legacy

Leeds is making its mark

HONGKONG and Shanghai Bank's Leeds branch, with its arresting bright red shop front, catches the eye of anyone walking through the heart of the city. It is one of several reminders that Leeds has international banking operations with links to world markets.

The international banking links are not a relic of the high tide of the British economy a century ago, but a reflection of growing export activity in the region, and the industrial revitalisation which lies behind it.

Hongkong and Shanghai opened its branch in Infirmary Street in 1983, hot on the heels of Standard Chartered which moved to Leeds from Sheffield in the 1970s. Five years on, the branch, one of only three that Hongkong and Shanghai has in the UK, handles a growing volume of trade finance operations, competing with the four big clearers and other international banks.

Leeds is proud of its international banking operations and Leeds businessmen are fond of claiming that the city has now pulled well ahead of Manchester as an international financial centre. That claim, however, needs to be taken with a pinch of salt.

There are still more foreign banks and bankers in Manchester and the range of services they offer is wider than in Leeds, where the bulk of international banking business is still the preserve of the four big clearers. More than one foreign bank has withdrawn back to Manchester after a disappointing entry into the Leeds market and, internationally, Manchester is still far better known.

However, Leeds is beginning to make its mark. "There are a lot of successful exporters around here," says Mr David Robertson, manager of Hongkong and Shanghai's Leeds branch. "We handle their trade with the Far East and the Middle East in lines such as finished cloth, chemicals, and engineering products. We quickly learned that Yorkshiremen have a distinct preference for doing business this side of the Pennines and not through Manchester. That is our *raison d'être*."

Mr Robertson says Leeds now offers businessmen the full range of international banking services that they are likely to need. The international departments of the major banks contain their own dealing rooms, though these are by London standards miniscule. The Leeds dealing room of National Westminster has a staff of three, for example, and that of Hongkong and Shanghai has just one dealer. The dealing rooms are closely tied to London operations, and are unable to go above fairly low ceilings without permission.

"But the local businessman knows that he can get everything he needs here and that he has security of transfer of funds in both directions," says Mr Dick Carter, head of NatWest's International Banking operations in Leeds. Mr Carter came to Leeds from Los Angeles, but describes the Leeds business scene as "doing very nicely".

Barclays, along with Midland and Lloyds, keeps its international operations in Bradford, once the heart of the Yorkshire textile industry. Despite the presence of newcomers such as Standard Chartered and Hongkong and Shanghai, the four clearers hold the lion's share of international business in the region.

There is a certain reluctance among local businessmen to look to banks with unfamiliar or foreign names.

Two French banks, Société Générale and BNP, have found the Leeds market difficult to break into, though Société Général retains an office for its leasing subsidiary in the city. "To get business here, you have to break a loyalty and win a customer over from an existing relationship," says Mr Carter.

At Hongkong and Shanghai, Mr Robertson says that he believes the bank is not strictly regarded as a foreign bank, and has perhaps found things somewhat easier than the French banks as a result. He, like others, attaches importance to local feeling and the need to bear in mind such factors as the friendly rivalry between Bradford and Leeds.

International banks meet regularly in a luncheon club which tends to be dominated by the clearers. However, the list of foreign banks in Leeds is much longer than might generally be supposed, running to a total of about 18 names, the majority of them coming from the Indian subcontinent.

The region's Indian and Pakistani Banks include BCCI; the Bank of India; Bank of Baroda; Habib Bank; the National Bank of Pakistan; and the Muslim Commercial Bank. In all, there are about 10 operating in the kind of markets about which the mainstream clearers know little or nothing – providing banking services to immigrant communities and helping transfer remittances back to families at home.

"Once in a while, we get a manager at one of our branches who is good at attracting this sort of business and we find that many Asian customers prefer to do business with us when they get to know us," says one of the clearers. "But it is a specialist market and not one we are very active in."

The immigrant banking market, however, is basically a retail business, while the international operations of the banks in the area are geared to corporate activity. Hongkong and Shanghai will not take any personal accounts in Leeds, for example.

All this could change when 1992 arrives and the British domestic financial services market is exposed to competition from the rest of the European Community.

No one in Leeds has yet decided how much difference 1992 and the advent of the single European market will make to the international banking scene in the city. The experience of those European banks which have tried to come into Leeds suggests that newcomers may not find the market very receptive unless they are offering new products.

The international banking operations already at work in the city seem to offer few gaps in a market for outsiders to exploit either in corporate or retail business, and European banks trying to come into Leeds might fare no better than earlier entrants such as Citibank, which seem to have had similar experiences to the more recent French arrivals on the scene.

David Barchard

MERCHANT BANKS

Still a bit thin on the ground

ALTHOUGH Singer & Friedlander got in first by opening in Leeds 28 years ago, merchant banking does not have much of a tradition in Yorkshire and Humberside – especially when compared with some of the region's solicitors, which can trace their origins into the 19th century.

So, while solicitors have been leading players in many mergers, acquisitions and flotations in recent years, much merchant banking has had to be imported from London.

However, that is not the fault of the merchant banks that are in the region already. They are acknowledged as good by other professionals and – in the sense of offering an ever-widening range of services – are clearly getting better. The only problem for the regional professional infrastructure is that they are thin on the ground.

County NatWest opened in Leeds in 1974, and is now adopting a high profile through the injection of substantial resources. It has been ever-present for some merchant banking functions. York Trust is a newcomer, but seems now to be spreading into financial services outside both the sector and the region.

More competition has come from an hour away in Manchester, where N.M.Rothschild in particular is strongly founded and may well be able to claim the north's widest range of locally-based merchant banking services.

Mr John Richardson, of County NatWest in Leeds, is undaunted. "What do people want from a merchant bank operating in a regional setting?" he asks. "They want development capital, corporate advice, and people they can get on with."

This means not having to replicate the operations of London headquarters on a smaller scale.

Mr David Courtman, of Singer & Friedlander's Leeds office, underlines the point. He says: "We keep overheads low by not duplicating the clearing banks' functions or anything else that can be done more efficiently in London. We get London to carry out documentation, and we can always call in specialised help if needed."

Where both Singer's and County have been scoring as the regional economy has perked up is through their deep local knowledge and over-

John Richardson: 'skills, local knowledge and contacts'

lapping networks of professional contacts in Yorkshire and Humberside.

As a result, each is now an increasingly significant player. Singer's claims to be the most active merchant bank in the region, even though it has only seven professionals against County's 16.

But, while County looks younger and more vigorous, Singer's has a substantial amount of unsung business among private companies. "We tend to look like a slumbering giant, but we are doing very nicely and don't mind," Mr Courtman says.

The measure of the two banks' seriousness, however, is that each has two main board directors in Leeds – Mr Courtman and Mr Brian Buckley, for Singer's; and Mr Richardson and Mr Michael Frank, for County. Moreover, Mr Buckley is Singer's deputy chairman and Mr Richardson is also on the board of County NatWest Ventures, the bank's risk capital arm.

In addition, Mr Frank, a corporate advice specialist who is strong on mergers, acquisitions, disposals and flotations, also has responsibility for developing this side of County NatWest's business in Manchester, so that his writ runs right along the M62 corridor.

Singer's is retained by 16 quoted companies in the region, many of them among the longer established. It also acts for many others on an *ad hoc* basis. So far this year it has been involved with more than £40m of publicly reported deals in the region, as well as a good deal of work for private companies it cannot disclose.

County, on the other hand, is well in with some of the Young Turks of the Yorkshire economy, such as the Spring Ram Corporation, Farnell Electronics, the Leeds Group and Dale Electric International.

If there is a weakness in the way the two banks operate, it is that, with relatively small operations and teams of only a few people, so much depends on the individuals involved.

For example, County lost Mr Frank for a year when he was poached by Pru Bache to help set up a high-value corporate finance and venture capital operation in Leeds.

The bank grabbed him back after Pru Bache's US management had decided – in the wake of last year's crash – to change policy and shut down the new office before it had even completed its first deal.

"We hadn't replaced him, because it was not just a matter of getting in someone else to fill his chair," says Mr Richardson, who believes that the key to success is the right combination of skills, local knowledge and contacts – and people with these do not grow on trees.

Mr Richardson himself is a specialist in asset finance and venture and development capital, and will exert an increasingly wider role in these fields in the north as County continues to develop. The Leeds office, for example, is now by far senior to County's operations in Manchester, and Mr Richardson and Mr Frank are key players in their northern battle against Rothschild's.

Meanwhile, Mr Courtman appears unfazed by others' displays of aggression in the marketplace. He says: "There is a mystique about merchant banking, because locally-based offices are relatively new in the regions. There shouldn't be.

"People in industry will gradually come to learn that it is no different from any other professional service when it comes to making a choice. They should automatically go round the profession and get alternative views and quotes.

"But, because of the mystique, they become overawed. They tend to go to one place and accept the first thing they are told. It would be better to use their lawyers to find the best merchant bank for the deal concerned. There is no substitute for independent advice."

At the end of it all, however, anyone looking for locally-based heavyweight merchant banking services will still find a limited choice, though this may well reflect the size of the market, rather than the quality of the banks involved.

This is underlined by the way York Trust is diversifying away from investment banking, even though it was set up by Mr Neil Balfour in 1984 with £10,000 to increase the base of locally available merchant banking.

While the company hopes to expand considerably in venture capital provision, the business has gradually evolved as a different animal since its 1985 reversal into the USM-quoted Equity Finance Trust in order to go public.

It has bought a pension fund management in the US and has gone big on financial broking through the recent acquisition of Babcock and Brown, which will make York Trust the largest lease broking business in Yorkshire.

A bullish profit trend will falter during growth, but Mr Balfour is expecting good results in the end. "If there has been a criticism of York Trust, it has been that we have been over-dependent on investment banking," he says.

With many other players – including the stockbrokers BWD and Henry Cooke – helping to fragment traditional merchant banking markets such as corporate finance, that may well be a comment about the scope for competitors to get in against Singer's and County.

Ian Hamilton Fazey

PROFILE: YORKSHIRE BANK

Outsiders bat for the county

YORKSHIRE Bank is not just a star performer in its own county. Though only the eighth largest UK bank, it is Britain's – and possibly Europe's – most profitable bank with a 39 per cent return on shareholder's funds last year and a 4 per cent return on assets. This, claims the bank, "was nearly double that of most of its competitors".

The irony, of course, is that for Yorkshire Bank its shareholders *are* its competitors. Ownership of the bank breaks down between National Westminster (40 per cent); Barclays (32 per cent); Lloyds (20 per cent); and Royal Bank of Scotland (8 per cent). Of the major clearers, only Midland does not own a stake in Yorkshire – it did once, but sold out in the early 1950s.

This situation goes back to 1911 when Yorkshire Bank, then a local savings bank, had to be bailed out by the clearers in an operation led by the Bank of England. The Bank thus lost its independence but, because it was jointly owned by the big clearers, was never taken over and absorbed by any single one of them – a fate which might otherwise have been inevitable for an institution of its size.

Instead, the bank continued to grow quietly in the North of England. Today it has 247 branches, about half of them in the Yorkshire and Humberside region, and a balance sheet of £2.2bn on which it made pretax profits of £88m last year.

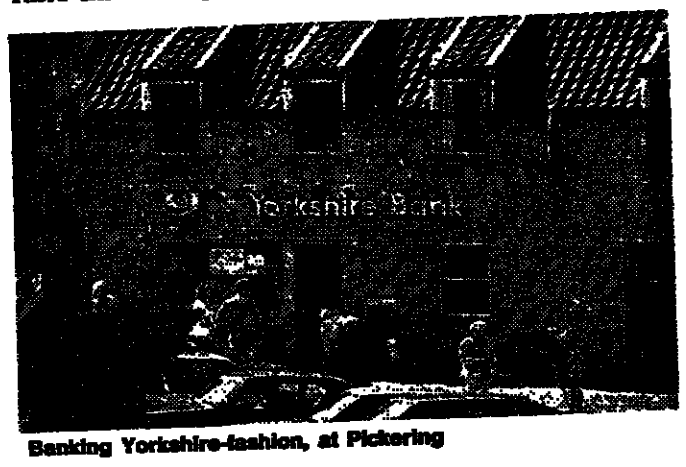
A glance at the bank's branch map shows its regional origins. It has only one branch in London, and none at all in Wales or the South West, though its branch network is slowly expanding into the Midlands and a branch was recently opened in Abingdon.

The pattern is broadly similar to that of the old pre-flotation Trustee Savings Banks. TSB, rather than the four big clearers, is Yorkshire Bank's main competitor in its heartland around Leeds, and the bank itself very nearly evolved into a trustee savings bank in the last century. It was prevented from doing so by the fact that it issued cheques to its customers, something which the early trustee savings banks could not do. None of this, however, explains Yorkshire Bank's profitability.

Mr Graham Sunderland, general manager for the last 11 years, offers a mix of unassuming explanations. "We are pretty efficient. Operating costs are low, with no large London operation. We have good computer systems, and short communications lines. There isn't tier upon tier of management as there is in some of the other banks."

Indeed one of the striking things about Yorkshire Bank is the simplicity of its managerial structure. There is no chief executive and, until last year, there were no executive directors. The board is made up of senior members, usually retired, of the four clearing banks which own Yorkshire, and its attitude to the management in Leeds seems to be "hands off". "This is very much a management-run bank," says Mr Sunderland.

One reason why the board has been content to watch from the sidelines is that Yorkshire Bank is one of the few British banks never to have approached its shareholders for a rights issue, a situation made possible by its consistent profitability.



Banking Yorkshire-fashion, at Pickering

Yorkshire has not felt obliged in recent times to follow some of the innovations of the larger banks: it has not split its corporate business away from its retail business, for instance. But the bank has been innovative on the products side. It was among the very first UK banks to adopt free in credit banking in 1981, and in 1985 extended its daily opening hours to 9.15am - 4.00pm, with once a week late-night opening to 6.00pm.

Much of its growth during the 1960s and 1970s followed an early decision, back in 1958, to go for personal loans business, which was then relatively unfamiliar. It currently has an instalment lending book of about £320m. This compares, however, with a much larger corporate lending book of around £800m.

On mortgage lending, however, it was late into the field and currently has a mortgage book of only £150m. Mr Sunderland says this is because the bank took a long time to grow accustomed to the idea of borrowing short and lending long, particularly when base rates were at peak levels seven or eight years ago.

The bank has about 1m personal customers, about half of them in the Leeds and Humberside region, and a further 200,000 corporate customers. Personal customers tend to be young and downmarket (classified C1s, C2s, and Ds).

Yorkshire offers them retail products comparable to those of most of its competitors. A Visa credit card was launched earlier this year replacing a Yorkshire Bank Barclaycard. It may soon be followed by a debit card, which customers will be able to use to draw cash from Visa automatic teller machines. This is important because, rather surprisingly, the bank's own ATMs are not yet linked to those of any of the bank or building society networks.

The bank has also trodden a different path from most of the clearers, choosing independent rather than tied status under the Financial Services Act.

One of the obvious constraints upon Yorkshire has been the need to avoid coming into collision with the commercial interests of its owners. But the pattern of recent years is one of steadily but quiet expansion of the branch network. Since 1974, it has opened 67 branches and at least half a dozen are opened each year.

However, the bank is not targeting the London market, at least for the foreseeable future, and seems mainly to be concerned to build up its strength in the North and the Midlands in towns where it has no branch. It remains highly selective in its choice of activities, having, for instance, no foreign services operations – a task handled for it by Barclays.

David Barchard

SOLICITORS

Competition brings mergers but some stick to their niche

MR ROBIN Smith, managing partner of the Leeds and Sheffield solicitors, Dibb Lupton Broomhead, joined Dibb Lupton 24 years ago. The legal profession in Leeds, he says, was then based on private clients and old, family money. Industrial businesses more or less ran themselves, with little need for legal advice.

Now that is all changed. "Old businesses have disappeared alarmingly quickly if not properly run. New people and new businesses have come up and the whole system moves faster."

When Mr Ian Harrison and Mr Andrew Bairstow set up Charlie Brown's car-part centres, other businessmen saw West Yorkshire as a place where money could be made.

The effect on solicitors has been dramatic. Dibb Lupton employed 25 people in 1964. Now, merged with Broomheads, there are 400. Ninety per cent of the work is commercial. The firm has reorganised itself like a company, with a board of eight.

One growth area is patents and intellectual property, as companies come up with new ideas to beat the competition. "The whole of industry is developing in a highly technical way," says Mr George Cox, of Booth and Co, which is proud of expanding into the top league without a big merger. "We are seeing local firms moving into a far greater degree of trade in Europe where they will have to protect their rights."

With two other mergers, creating Hammond Suddards and Walker Morris Scott Turnbull, Leeds and its neighbouring cities have four legal firms with over 200 staff, which is more than Birmingham. And the Legal 500 (published by Legalease) shows no firm of this size in the north-west.

Walker Morris Scott Turnbull is building a new £3.7m office near that of the Bank of England; gables give it a latter-day Gothic touch. Will it suit Prince Charles? "I think so," says Mr Peter Smart. "It is sympathetic."

Not all firms are going into mergers. Willey Hargrave is sticking to its niche in personal injury, professional negligence and other specialised litigation. Many small firms work for clients on legal aid, and Leeds Law Society is watching for the Government's new proposals.

"Size is not for its own sake," says Mr Trevor Lewis, of Hammond Suddards, which worked with FKI on its acquisition of Babcock. "But you need to have a full range of services and to provide strength in depth across that range. You have to have the resources to deal with everything in an acceptable time.

"The time scales when I began would be totally unacceptable today. We have to respond with alacrity and competence. Why should they pay us if we don't? For us as lawyers it is important to resond to market needs and help attract new business into this part of the country."

Loosening of the restrictions on advertising has allowed solicitors to produce stylish brochures about their services. If they had done that in the past, "we would probably have been struck off or sent to prison or something," says Mr Cox.

Mr Martin Shaw, of Simpson Curtis, another big Leeds firm, says that competition has intensified in the past year, forcing solicitors to "come out of the woodwork". Mr Bob Heslett, of Willey Hargrave, says: "You get mail shots from your competitors, asking to do your conveyancing."

The competition is not just local but with London, and for staff as well as clients. "With the international environment being thrust down our throats by Lord Young," says Mr Shaw, "how do we counter the London factor, comfort our existing clients and get new ones to join us?"

On the staff side, "a solicitor can have practically the same sort of work as in London. We are dealing frequently with transactions of more than £100m. We can offer a faster career path to partnership. It takes six, seven or eight years to become a partner in London. I became a partner in two years."

Mr Shaw believes that the competition has caused his own firm and Booth and Co to stress their links with other lawyers as a means of matching London services. Simpson Curtis is linked with firms in Newcastle, the north-west, Birmingham and Bristol in the Legal Resources Group. It provides comprehensive training and plans associations with lawyers in Europe and overseas.

Peter Kunzlik: 'practice is clearly the place to be'

Booth and Co is linked with Manchester, Birmingham, Bristol, Norwich and Cambridge firms in the M5 Group. Mr Cox says: "We do joint recruitment. We are able to match London salaries and give somewhere to live where you don't have to travel on the Underground. We shall have central specialised units or specialists in our own offices. Our main expert in agricultural law is in Bristol.

"We cannot afford to have French, Spanish, Portuguese experts in every office, but between us we can have them."

Hammond Suddards has brought in a Cambridge don, Mr Peter Kunzlik, to help it handle the European and transatlantic links. "For a Common Market lawyer with 1992 in the offing," he says, "practice is clearly the place to be".

On the home front, Mr Cox, a specialist in applications for planning permission, has been working on the transfer of planning powers to Leeds development corporation from the city council "with whom I am always arguing. The wheel has turned full circle; I used to work there, too."

At Booth and Co, he says, "we pride ourselves on not just waiting for clients to think of a problem for us". To gain an understanding of how companies think, he has taken on directorships of Comet and Appleyard. "I have been selling cars for the past five years," he says.

Mr Lewis, at Hammond Suddards is less keen on getting involved in business: "Lawyers should practise law. That is why I do not want to be a property man. The independence of the legal profession is best served by concentrating on being lawyers."

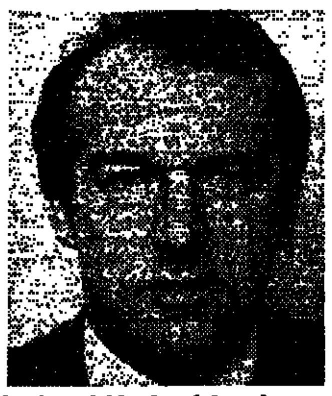
Mr Smart, of Walker Morris Scott Turnbull, says of his firm: "We have done all the major business expansion scheme issues in this part of the world."

At the other end of the market, the firm uses computers to deal with 2,600 claims a month from motorists throughout the country. After an accident they stand, typically, to lose their no-claims bonus or they must pay the first £100 or so of damage; and they, or the insurers of their excess or bonus, want to pursue the driver who ran into them.

The computers produce a letter for him and his insurance company and start court proceedings if necessary. Mr Chris Caisley says that 30 per cent of claims are settled after the letter arrives and a further 30 per cent after queries from insurers. The system also brings up injury claims.

Mr Leslie Morris (no relation to the firm's founder) was formerly with the Inland Revenue. He does tax investigations and is keen to stress that lawyers as well as accountants have a tax role. He has just got a Vatman to withdraw a demand for £66,000. He adds, however: "I have to accept that the Revenue are often right."

David Spark

Sheffield's Lower Don Valley: a subject for study by Coopers' urban regeneration team, headed by David Liggins (above)

Accountants: the big firms find the region is . . .

Ideal for recruitment

WHEN the Government announced that it was selling off bus companies, Mr Brian Bouttell, of Peat Marwick's Leeds office, rang up local managers to suggest that they should buy.

He comes from Darlington, where he used to audit the books of United. "I know about buses," he said.

He had soon helped managers to buy United and five other companies. "Once you have done one or two," he says, "you have an advantage. There are not that many people who have done bus buy-outs."

His latest is the management-and-staff purchase of Yorkshire Rider buses from the West Yorkshire passenger transport executive. The price is £23m.

There is nothing like a management buy-out or buy-in to put a glint in the eye of accountants: and they show the patience of anglers in landing their catch. When the Coopers and Lybrand Leeds office helped with a buy-in at Aveling Barford, it was the sixth deal it had attempted to set up for the buyer.

At the same time, accountants are keen to stop short of actually sponsoring a deal. "We do not impinge on the services of merchant banks," says Mr Harold North, of Peats.

"We are always in an advisory role," says Mr Neil Jenneson, of Hodgson Impey at Hull. "We have to be independent. That is our major selling feature."

Hodgson Impey has been helping with buy-outs at Vertex Optical of Driffield, Techmac Barton, plant manufacturers, and C.B.Cottingham which builds police vehicles and mobile X-ray units. After managers had bought Boythorpe, maker of silos and tanks, it helped them acquire an unprofitable American-owned competitor and produce a strategy to turn it round. "It has been tremendously successful," says Mr Jenneson.

A buyer-out, he says, "has to have a bit of a rat in his guts. He needs to achieve success through ownership and risk. Then all he requires is moulding into an understanding of the issues involved. "They have to need to make it work, to risk 5 to 10 per cent of the capital," he says.

Almost all the bigger national and international accountants, including Price Waterhouse, Ernst & Whinney, Deloittes and Spicer & Oppenheim, are represented in Yorkshire and Humberside. Some of them, such as Peats, Grant Thornton and Hodgson Impey, have several offices. "We believe Leeds is the third-ranking financial centre in the United Kingdom," says Mr North.

It is a good area not just for business but for recruitment. "There are a lot of very able people in this part of the country," says Mr Tony Grant, whose career with Coopers has taken him to London, Madrid and south-east Asia and now back to Leeds. He sees firms like his as helping people acquire the sort of skills for which in France they would go to the élite *grandes écoles*.

He also sees such firms as multi-disciplinary teams, with actuaries to advise on company pension funds and economists to look at business trends. "You should not think of us as chartered accountants any more."

Coopers has its national team for urban regeneration based in West Yorkshire, headed by a former university economist, Mr David Liggins. It has been studying how to regenerate the Lower Don Valley at Sheffield.

Peats also has a national unit in Yorkshire, for building societies. It does almost half the building-society work in Britain and most of this is in Yorkshire.

Mr Tony Richmond, of Peats in Leeds, was the first man appointed administrator of a company under the new Insolvency Act. That was the Charnley Davies finance group. He went on to be administrator of Halifax Town Football Club (having been receiver for Middlesbrough under the old law) and now of James Ferguson, parent company of Barlow Clowes.

On the management consultancy side, Peats has helped Yorkshire building societies install information and management systems to cope with their new roles in estate agency, insurance and unsecured lending. Hodgson Impey, which specialises in work for medium-sized companies without a full range of experts in-house, devised an information system for the Marr group.

Mr Ian McBride, at Peats, stresses that management consultancy is not a matter of recommending cuts. His consultancy unit includes production engineers, personnel experts, information technologists.

Grant Thornton has appointed a human resources consultant. He is Mr Trevor Tindell, formerly with Dudley borough council and the Armitage and Norton management consultancy. The idea was that he would help small firms with recruitment, but he has been equally in demand for advice on training as the small firms expand. It is important, he believes, for firms to learn to do training themselves, rather than rely on outsiders; and the training has to start with the management.

Mr Gary Downey says that Grant Thornton works for more small companies, up to £2m turnover, than any other accountancy firm.

Other big firms are also looking for small business. Coopers helped a woman near Northallerton to make pies for pubs.

This worries Mr Arthur Duce of Horsforth, president of West Yorkshire's certified accountants. He was an audit manager with Ernst & Whinney but decided he would go out on his own because he was tired of big audits and, as a certified accountant, could not become a partner. He and his eight staff have over 300 clients, one of whom is planning to go on the USM.

Fresh from a journey into the fog to advise a Pickering firm on financing a new machine, Mr Duce said that the big firms were trying to muscle in at the smaller end of the market.

"The big firms are not interested in the one-man shop," he said. "They are interested in the half-million-upwards. They are the ones we have to watch out for.

"They give them talks and lectures, wine and sandwiches. I try to do the same. Every year I hold a budget seminar. We have to be conscious all the time of the market-place and make ourselves known in it. I can offer the same service, and I do so.

"I don't mind using the big firms when I need expert advice, ensuring that the person I am acting for gets the best possible service."

David Spark

STOCKBROKERS

The M62 will be a war zone

WITH 11 firms of stockbrokers spread over 23 offices, it might be assumed that there was no shortage of their services in Yorkshire and Humberside – but there is, because the network is heavily biased to the retail market and the private client.

The northern business community has long moaned that corporate stockbroking services of national standing are lacking in Leeds, the economic capital of the Yorkshire and Humberside region. The view was that Leeds needed the equivalent of Manchester's Henry Cooke Group.

The financial industry has recognised this, and the lines are now being drawn for a big battle to provide the services and take market share.

The brokers in Leeds will be the ones doing most of the fighting, for that is where it is easiest to plug into the wider network of other professional advisers.

One of them has already stolen a considerable march on everyone else, but led from Huddersfield by its aggressive, young management.

The Napoleonic role here has been assumed by Mr Christopher Broadbent, joint managing director of the BWD group. He is only 32, but has eight years experience in charge, having been catapulted into leadership when his father died.

His main protagonist is not yet in the field, because it is Manchester's Henry Cooke Group. It is in negotiation now with an unnamed independent Leeds stockbroker, and expects to reach agreement to start operations in January.

Henry Cooke's plans are already well-formed, however, since Mr David Alderson, who is head of corporate finance, will move to Leeds to take charge of the assault on the corporate market. Cooke's managers have been sworn to secrecy while negotiations proceed but, with three flotations in the pipeline for next year, they expect to have a flying start.

The battle will then be on between the BWD and Henry Cooke groups for the title of the north's premier stockbroking and financial services house. They will fight hard in Leeds, but the war will almost certainly range wider along the whole length of the M62 corridor.

The way each has been emerging suggests that, whatever the outcome, gaps in the market are going to be things of the past.

BWD had the more impressive name of Battye Wimpenny and Dawson until recently. It was a small stockbroker based in Huddersfield – but with ambitions.

It cut its expansionist teeth by launching the Yorkshire General Unit Trust, chaired by Mr Neil Balfour and run by Professor Brian Murphy, then of Huddersfield Polytechnic, in 1986.

This is an unusual investment vehicle, because it deliberately puts the bulk of its funds into Yorkshire companies and uses regional chauvinism as a marketing asset. With the Yorkshire economy recovering fast, the trust has outperformed all indices.

Many London pension fund managers had never heard of Battye Wimpenny and Dawson, however, even though Professor Murphy's impressive *Annual Review of Yorkshire Companies* was circulated widely. What woke up many more to its existence was when it became the first British stockbroker to go public, which it did via the USM last April.

It had already taken over Capital for Companies, with Mr Barry Anysz, that business's founder, joining the main board, a development which gave it a base in Leeds.

In pure stockbroking terms it had a firm base of private clients, but this is now likely to expand massively as a result of an agreement with the Yorkshire Building Society to offer stockbroking services to the society's customers. The society took a substantial and increasing minority stake in BWD, putting in money for even more expansion.

This came only last month when Rensburg – the Liverpool stockbroker with offices in Bradford and Leeds – joined the group, which was promptly renamed BWD Rensburg.

BWD Rensburg's profile is therefore very much stockbroker-plus nowadays. Because it researches widely for its unit trust and the now-quarterly *Review*, it has an entrée to pick up corporate business, and is doing so.

One way to get in and prove itself is to persuade companies to switch to Northern Registrars, a share register service BWD started this year.

It is scoring on both cost and efficiency through being highly computerised to the extent of bar-coding share certificates to speed up updating of registers.

So BWD Rensburg is in stockbroking, venture capital, corporate services and – especially with the addition of Mr Tim Jason Wood, of Rensburg's Leeds office – corporate finance. This makes it a hybrid sort of financial services with more than a dash of merchant banking about it.

The Henry Cooke Group, which also has a cash-rich minority equity partner from the big league in Refuge Assurance, will enter the fray with a built-in merchant bank, Edington, and a long track-record of acting as national corporate broker to several leading northern companies.

Each stockbroking firm has its eye on the thousands of presently unquoted companies along the M62 corridor, all of them prospects for corporate finance and, in many cases, eventual flotation.

With most of the other stockbrokers in the region concentrating on retail share markets – and several of them part of national share-retailing groups – it is hard to see how either BWD or Henry Cooke can fail, given the size of the market they are chasing.

The retail market, however, is also extensive, in spite of last year's crash. Privatisation issues were greeted enthusiastically, and firms such as Nicholson Barber, in Sheffield, had queues winding down several floors from their offices to the street.

Whether such scenes will be repeated for steel, electricity and water is a different question in the post-crash era, but many brokers believe that regional chauvinism could yet be telling in an area where steel has always been a major industry and where the Yorkshire Electricity Board has 2m customers.

Interest has never been higher, and Mr Neville Alderson, manager of the Leeds office of the Stock Exchange's Northern Unit, is spreading the gospel even more through a systematic schools liaison programme and night school courses in Wakefield.

His next target is pre-retirement groups and savings clubs. It all means that, as the war rages for the corporate client, the small investor is still going to be nurtured and provided for.

Ian Hamilton Fazey

The region's stockbrokers

BROADBRIDGE: at Halifax (0422-67707/8), Leeds (0532-422211), and Wakefield (0924-372601/371594)
BWD RENSBURG: (formerly the separate companies of Battye Wimpeny & Dawson and Rensburg), at Bradford (0274-729406), Huddersfield (0484-608066), Leeds (0532-422211 and 0532-434631), and Sheffield (0742-722292).
CAWOOD SMITHIE & CO: at Harrogate (0423-530035)
GRIEG MIDDLETON & CO: at York (0904-647911)
HILL OSBORNE & CO: at Bradford (0274-728866) and Scarborough (0723-372478/9)
HOWITT & PEMBERTON: at Leeds (0532-439011)
NATIONAL INVESTMENT GROUP: at Doncaster (0302-340200) and York (0904-622085)
NICHOLSON BARBER & CO: at Sheffield (0742-755100)
NORTHERN STOCKBROKERS: at Grimsby (0472-50232), Huddersfield (0484-535335), and Hull (0482-25750)
REDMAYNE BENTLEY: at Leeds (0532-436941)
STANCLIFFE & CO: (a division of **ALLIED PROVINCIAL**): at Harrogate (0423-66071), Hull (0482-226293/23935), and Leeds (0532-420303)
WISE SPEKE: at Leeds (0532-459341)

Geographical distribution: Bradford (2), Doncaster (1), Grimsby (1), Halifax (1), Harrogate (2), Huddersfield (2), Hull (2), Leeds (6), Scarborough (1), Sheffield (2), Wakefield (1), York (2).

Insurance provides about 5,000 jobs in Leeds

Helping to take the risk out of planning

SINCE Mr Clive Griffiths went to manage Cornhill Insurance's Leeds office in 1973, its income has multiplied 25 times. It is a sign, he says, that Leeds is a major insurance centre, on a par with Birmingham.

Every major insurer is present in the city. The Sun Alliance has about 400 staff, the Royal about 350. The major national and international brokers are present, and also a dozen loss adjusters.

The industry employees about 5,000 people, in what, for the past 15 years, has been a very vibrant area.

"The basic thing about insurance is that you are risk-takers," says Mr Griffiths. "We have taken more and more risks. We have enabled commerce and industry to plan ahead, safe in the knowledge that risks are taken care of. There has been a tremendous rise in extended warranties, and in credit insurance against illness, death or redundancy."

Some years ago, insurers went through a bad patch. "We had a lot of very expensive fires," he recalls. "Many of the mills were suspect. They were multi-storey and had wooden floors, soaked in lanolin from wool fibres. Now they have gone or been properly renovated.

"People now take greater care, and our risk-management teams make sure they take greater care. Throughout the United Kingdom we are getting a much better appreciation of security problems; not just the security of premises but of staff as well. There is a feeling that well-run companies do not put their staff at risk. People are installing barriers where you cannot get in without a printed identity card. Companies are aware that insurance does not repay the long-term upset from an entry."

Under new rules, insurance sellers have to decide whether to be registered intermediaries or tied agents

Another change is computerisation. "Computers now rule, to my staff's delight," says Mr Griffiths. "It saves time and it saves energy and there is less chance of error. We can call things up in microseconds. People worry that computers are coming and their job is going. But we have never made anybody redundant."

After a factory visit, an insurance engineer can type details of new equipment into a portable computer and pass the information on to the company mainframe.

Under new rules, insurance sellers will have to decide whether to be registered intermediaries or tied agents of one or more companies. "The companies will be responsible for their agents' actions. In the first six months of 1989 we will have to have a very careful look at the people with whom we do business, to the benefit of clients."

Cornhill may draw benefit from being owned by the German firm, Allianz. "The tied agency is something they know well."

Another German approach is to have centres where a motorist with an accident-damaged car can find out how much his insurer will pay for its repair. A pilot centre for the Cornhill is opening in Hull.

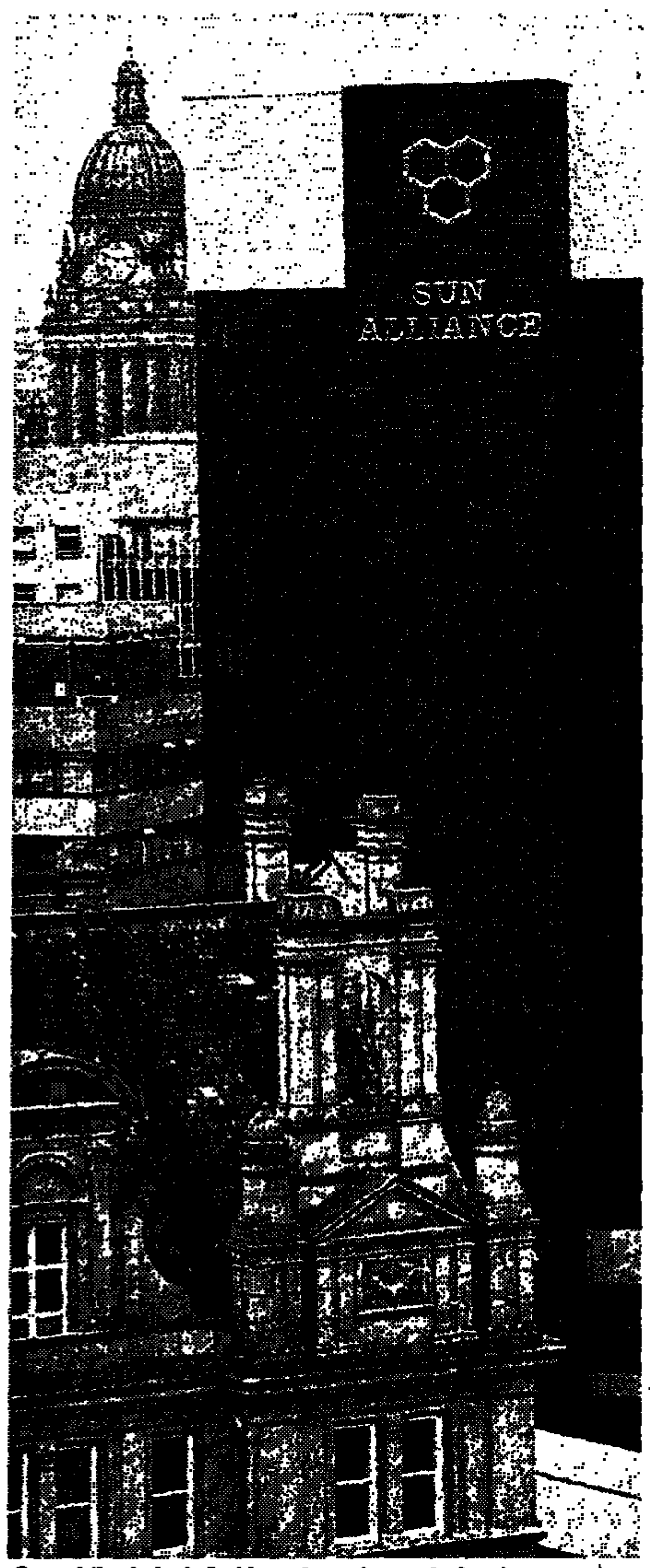
Yorkshire boasts the private-car insurer with the most policy-holders in the United Kingdom, though it does not advertise and deals solely through 3,000 brokers. It is the Bradford-Pennine, still run from North Park, Halifax, original home of the Pennine which merged with the Bradford. The old house still exists, hidden behind the modern offices. The merged company went there because there was room for a computer. The Phoenix which took it over in 1971 made it motor-only. It is now part of Sun Alliance.

Yorkshire boasts the private-car insurer with the most policy-holders in the UK, working through 3,000 brokers

Mr Ken Sinfield, an Ulsterman who transferred to the Phoenix from computer-work at Rolls-Royce, Bristol, went to Halifax as manager in 1983. Motor insurance was hitting a bad patch as the economy picked up and road traffic increased. The Bradford-Pennine's premium income fell to £49m a year. It is now £140m.

This, Mr Sinfield suggests, is because it has the lowest costs per unit and offers the widest range of options to different groups of motorists. Low costs are not based on Halifax pay scales: Bradford-Pennine pays the Sun Alliance national rates. "What really determines unit costs is the quality of our computer systems. We turn everything round in the working day. Our engineers take portable computers when they go to see damaged cars."

Staff at Bradford-Pennine all wear uniform: the men a business suit with company tie and shirt, the women a blue suit and tie with white shirt. Mr Sinfield admires the Japanese approach to work. "British industry has been through a transformation. Insurance is no different from anything else. People who are producing paper, not widgets, may feel that delay does not matter. But if a customer buys a service, he deserves to get it promptly and efficiently.



One of the industry's biggest employers in Leeds

Mr Ken Sinfield: admires the Japanese approach to work

Bradford-Pennine, he explained, has its own computer-software subsidiary, North Park. It has provided 1,439 brokers with computer programmes which help run their business and enable them to call up on a screen the premiums quoted by the various insurance companies. "If they are computerised," says Mr Sinfield, "there is a knock-on effect for us".

The next stage is to have the brokers' computers in direct contact with the Bradford-Pennine computers. A few already are.

Mr Griffiths, at the Cornhill in Horsforth, thought this would be possible only for straightforward deals. Mr Sinfield is confident that North Park software will handle complexities. It is about to launch Docunet, which 15 insurers have agreed to join. This system assumes that the broker will ask basic questions such as age and address. It will show other questions, to which the chosen insurer requires answers. Then it will print a completed proposal form for the motorist to check.

Meanwhile, IBM has announced a computer network that can link brokers and insurance companies. Other networks are likely.

"The average broker," says Mr Sinfield, "is still where we were 20 years ago. They are coming into computers from a paper environment. We have forgotten how hard that process was. It will take a number of years."

David Spark

AGENCIES

The image is class, not muck-and-brass

A LEEDS agency, Brahm, redesigned the cans for Tetley bitter, making it look as up-market as whisky; and now, says Mr Tony Handley, one of the five who formed Brahm in 1983, sales of the cans are up 78 per cent.

He stresses it is not just a matter of design flair but of research into the Tetley image. "Before we do anything for anyone, we do a lot of research. How are they perceived in their market-place? What are their business objectives?"

Yorkshire publicists, competing against London, are seeking to put more advertising and press-release writing behind them. They want to use advertising, public relations, exhibitions, sponsorships and design to create images; and the images they seek are not of muck-and-brass but of class, even for humble products.

Brahm is proud of winning awards with its campaign for Stelrad's Hull-made radiators and boilers. It broke new ground in the building trade press by placing classy Sunday supplement-type advertisements.

Mr John Baldwin, chief executive of Brahm's near-neighbour at Headingley, Moss International, is just as proud of an American campaign for Dewar's whisky. With alcohol advertising restricted in the United States, Moss got Dewar to sponsor an American tour by the band of the Royal Scots Dragoon Guards to help restore Washington Old Hall. The Queen sent good wishes; and Moss also arranged a tartan exhibition at New York's Fashion Institute of Technology. Mr Baldwin is now seeking sponsors for a major exhibition of Russian contemporary art.

Publicists want to put more advertising and press-releases behind them

Mr Ian Gill of Murray, Maltby, Walker and West, advertising stablemate of Moss International, speaks of "two-way rapport". You present your client to the public and to people who will influence the client's future. You also tell the client what these people think of him, so that he can mend his image if necessary.

But why should a client go to a Leeds-based agency? "In London," says Mr Gill, "they are not hungry. We are hungry for work and we will service it better."

Meanwhile, to serve clients with wide-ranging operations, Moss International has opened offices in New York and London plus four other British cities, and is establishing a European network. In only two years it has achieved an annual turnover of £3m.

Brahm, however, does all its work from Leeds. Mr Handley points out that they cannot clone their Leeds team for other places. But they have produced advertising for companies in Paris and America.

"Our billings have reached £10.5m a year. If we had been in London, it would have been a lot more. London is still perceived as the advertising centre of England: it's full of Yorkshiremen. "But we live up here. We like it up here. We would not like to work and bring up our children in London."

Initially, he says, he wanted to be a lawyer but the thought of six years' study and exams horrified him. "I think advertising is a similar discipline because you are presenting the best face of your client."

Tony Handley (right), of Brahm, with PR director Dennis Kelly

Yorkshire agencies may pick up business round the world. "But it has always galled advertising men that, as soon as a Yorkshire client is big enough, he goes down to London," says Mr Jonathan Kidd of Kidds Advertising in Horsforth. The firm was started by his grandfather, who had been advertisement manager of the Newcastle Evening Chronicle.

"When I joined the firm," he says, "I looked at ways of making ourselves attractive to large-spending clients. If they would not buy my advertising, I had some very talented designers."

He set up Art Team, which now earns half of Kidds' turnover. Asda, Burtons, Empire Stores and the Halifax Building Society have London advertising agents; but Art Team has designed for them brochures, packaging and sales displays. It also does Thomas the Tank Engine designs for children's slippers.

It gives clients the chance to deal directly with designers, and not through an agency. "I think clients up here like that," says Mr Kidd. "Many clients have specialist marketing men who feel confident about commissioning services and not relying on an agency."

At Sheffield, Jan Morris and Associates (founded by a former public-relations manager at Rothmans) is helping the development corporation to demonstrate an interest in the local community, rather than appear as an outside body imposed upon it. The corporation was set up to redevelop a large area of the Lower Don Valley where steelworks have closed. "The first thing it did," says Mr John Scrimshaw of Jan Morris, "was to give a £30,000 grant for an environmental scheme, the five weirs walk down the River Don. There are herons and kingfishers there. "It is the first development corporation to appoint a community director.

Jan Morris and Associates has been doing research into community projects the corporation might support. It has decided to help a scheme to turn a former roller-skating rink into a theatre and community centre.

Can the corporation back up its community-conscious image with a real impact on local welfare; or, as a leading community worker, Dr John Vincent, fears, will it touch only a tiny proportion of the population?

The justification of images, perhaps, is that they give the reality something to live up to.

David Spark

Building societies: regional voices are strong but not in harmony

The shadow over viability

A ROLL-call of the top UK building societies sounds like a gazeteer of the industrial towns that straddle the uplands on the west side of Yorkshire.

There is Bradford, Bingley, Skipton, Leeds, and of course Halifax. Add National & Provincial and Yorkshire (both Bradford-based) and Leeds & Holbeck, and one has no fewer than seven of the top 20 building societies, all within a 30-mile radius of Leeds.

If, as seems likely, Abbey National drops building society status next year after a stock market flotation, the role of the Yorkshire societies in the industry will become even more pronounced. Yet although these societies have a common origin in local traditions of thrift and prudence in the mill towns of Victorian England, they do not operate as an identifiable group within the building society movement, and pressures from the market are speeding up the process of divergence from one another.

Skipton, for example, is evolving into a specialist in off-balance lending; it usually works with funding from a European source, such as a French bank. This is a favourite route for some of the smaller but more agile societies in the markets of the late 1980s, and the Scarborough, another small Yorkshire society, seems to be treading a similar path.

Choices are more difficult for the medium-sized societies. The Yorkshire and the Bradford & Bingley (asset sizes £5bn and £2.4bn respectively) held talks about a merger two years ago, but failed to press the agreement home. Both have shown flair as innovators – Yorkshire recently became the first building society to buy a stake in a stockbroker, for example. Bradford & Bingley burst upon the national consciousness more than a decade ago in what has come to be regarded as a classic advertising campaign.

However, the industry today is overshadowed by long-term questions about own viability. Even some of the more conservative societies have sponsored research which shows that, under pressure of competition, the present 115 societies are likely to contract to nearer a dozen by the end of the century.

Three of the larger Yorkshire societies have spent much of this year looking into the question of whether or not they should not resolve their futures by exercising the option given them under the Building Societies Act, and have a stockmarket flotation.

Societies need a large market share and a strong managerial infrastructure if they are to contemplate this alternative. And, as Mr Terry Carroll, finance director of National & Provincial, puts it, "They will have to have a good story to tell the market" in the run-up to a flotation.

Despite the impressive-looking balance sheets that most of them publish each year, by no means every society is yet in that position.

No one doubts that Halifax, the largest of the societies, with assets now around £39bn, would have been a tempting prospect for investors. But Halifax, which announced in January that it had appointed N.M.Rothschild, the London merchant bank, to advise it on its business strategy, including incorporation as a company, decided against it in July. So too, after a similar study commissioned from Hambros, did Leeds Permanent, the sixth largest society.

But neither Halifax nor Leeds has shut the door for ever on incorporation. Indeed, it appears that their decisions will be reviewed in the early 1990s, when some analysts in London believe there will be a spate of conversions among major societies – assuming the planned incorporation of Abbey National goes ahead successfully next year.

It does look as if public opinion has now swung more strongly in favour of mutuality than it might otherwise have done. Yet one Yorkshire society stands out as sympathetic to incoporation: National & Provincial appointed J.P.Morgan, the US bank, to advise it in early February, but has so far made no announcement. It has, however, published a poll that suggests its members might favour incorporation rather then oppose it.

NatProv seems to be biding its time; partly to get its internal managerial and systems infrastructure into place, partly to see the outcome of the Abbey National members' vote on flotation. Several building societies have been alarmed by the emergence of an active protest group inside Abbey National and by the sympathetic coverage this has received in the media.

Meanwhile, the larger and middling societies are pressing ahead with diversification of services. Perhaps the biggest splash this year has been made by Leeds Permanent's Visa card, launched in October amid massive publicity.

Mr Mike Blackburn, chief executive at Leeds Permanent, says the society is on course for 100,000 Visa cards by the end of the year. This would be several times the size of existing smaller credit card operations, such as that of Save & Prosper, but miniscule compared with the operations of the major banks.

Leeds Permanent, a latecomer to the market, has linked up with three medical charities to help boost the attraction of its Visa card. For each £100 spent using the card, it will make a donation to a specified charity.

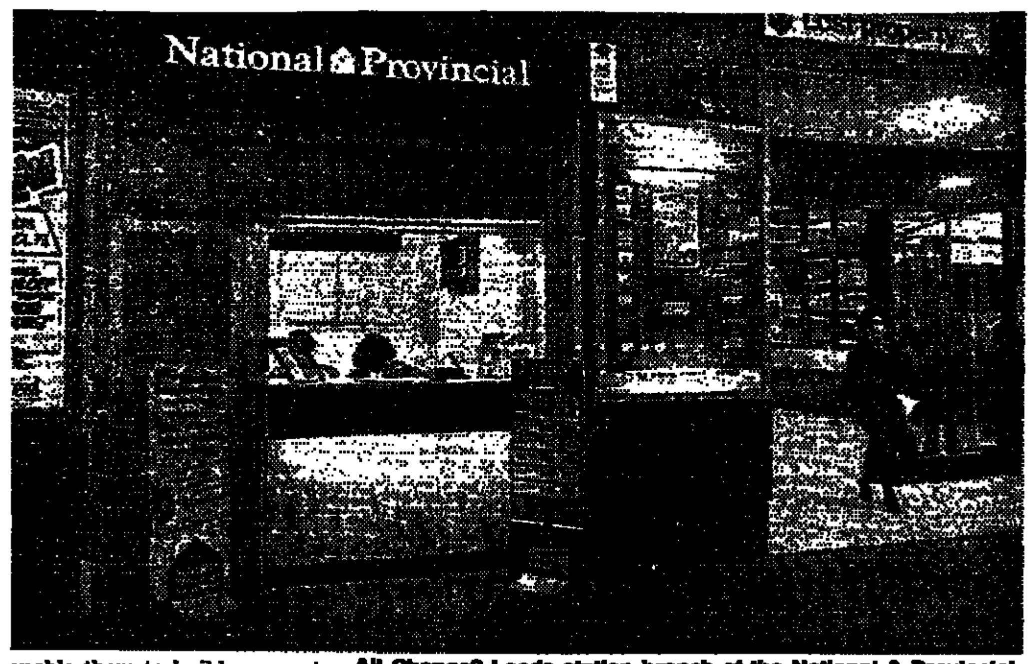
Halifax, the other society to enter the credit card business, is giving no figures about how many it has issued so far. Both societies hope their cards will enable them to build up a network of well-to-do customers, to whom they can "cross-sell" other financial services and products in due course.

None of the Yorkshire societies has yet followed the southern societies, Abbey National and Nationwide Anglia, in issuing a cheque-book current account. They appear to endorse Halifax's belief that the day when electronic money transmission supplants paper-based methods is only just around the corner. Some northern customers, in any case, seem to be satisfied with the traditional passbook system, at least for the time being. Halifax's Cashcard account is basically an ingenious adaptation of the the passbook to electronic technology.

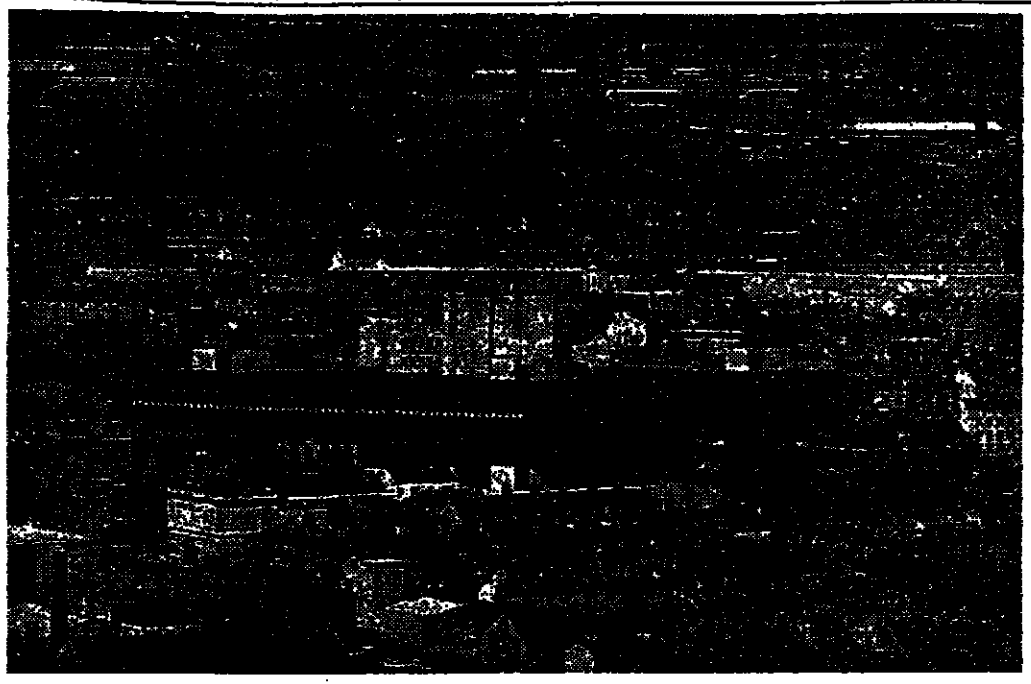
Meanwhile, the societies' two traditional lines of business – savings and mortgages – have been flourishing this year, with a booming housing market until the autumn and small savers still deterred from unit trusts and the stock market by last year's crash. Building societies have been in a position to squeeze competitors, such as the banks and mortgage companies, and push up their share of the market. However, it looks as if conditions have been more favourable for the very large societies than for some of the medium and smaller ones.

Halifax believes that the housing market has slowed down this autumn, though not to levels which should pose difficulties for building societies. It thinks that another fair year for the societies could be in prospect in 1989.

David Barchard



All Change? Leeds station branch of the National & Provincial, one Yorkshire society that is sympathetic to incorporation. No announcement has yet been made, but the society's poll suggests that its members might favour the switch



The society's head office, in Halifax, where Mr Jim Birrell, who became its chief executive during the summer, says: 'We can raise the capital we want as a mutual and provide it more economically'

PROFILE: HALIFAX BUILDING SOCIETY

Underpinning and extending

YORKSHIRE'S largest and most powerful financial institution by far is the Halifax Building Society, a familiar presence in high streets across the country with around 15 per cent of the total UK mortgage market.

This has been an action-packed year for Halifax Building Society. The Society's core business, which languished along with the rest of the industry in 1987, touched record levels this year with mortgage lending around £10bn and assets rising from £27bn to £39bn.

However, this is only part of the story. Halifax also broadened its capital base by issuing £350m of subordinated debt. It stepped into the international money markets with bond issues dominated in yen, Eurodollars and Ecus, even though by the end of the year only about 12 per cent of its funding came from wholesale sources. It broadened its product range by issuing cheaper mortgages for those borrowing more than £80,000 and fixed rate mortgages.

It also continued to diversify: its chain of estate agents grew to 570 branches; and in June a Halifax Visa card appeared on the market, with an interest rate undercutting established rivals such as Barclaycard.

It also set up a branch in the Channel Islands for expatriates, prepared to launch operations (as yet unspecified) in other European Community countries, and made plans to join up its ATM network with that of the rest of the building society movement.

However, the biggest decision the society made in the course of the year was against, rather than for, change. In January Halifax announced that it had appointed N.M.Rothschild, the London merchant bankers, to study its business strategy for the next decade and beyond and, in particular, to recommend whether or not the Society should shed mutual status and become a limited company with bank status.

News that the board had decided against incorporation was something of a landmark

Though Halifax always insisted that it had an open mind on the issue and might decide either way, the news, announced in July, that the Society's board had decided against incorporation, was something of a landmark.

"We decided to take a firm business decision that our business development plans would be best served by remaining a mutual," says Mr Jim Birrell, who succeeded Mr John Spalding during the summer as the Society's chief executive. "We can raise the capital we want as a mutual and provide it more economically."

Halifax's attachment to mutuality perhaps has something to do with the seeming paradox of a technologically ultra-sophisticated late 20th century financial services corporation located in a Victorian Pennine town. One of the society's competitors describes its headquarters without any irony as "Starship Galactica glittering in the middle of Halifax". It is easy to see what he means.

The windows of Mr Birrell's top floor office look out on a townscape of sturdy dark stone houses which has changed relatively little since the last century. On lower floors, fluorescent light bathes squadrons of computer terminals on which Britain's largest mortgage business is processed. Lower still, two floors underground and shielded behind walls of plate glass, remote controlled machinery tends a collection of 1.5m property deeds stored in an enormous crypt.

Working amidst these almost flamboyantly high tech surroundings is a predominantly northern workforce of 1,500. "Most of the staff spend almost all their working lives with us," says Mr Birrell. "We place considerable emphasis on high standards of training and we have much lower turnover in our northern office than there would be in London."

Yet Halifax is aware that its size makes it a metropolitan institution. "I spend about two days a week in London on average," says Mr Birrell. "And our main business relationships are similarly split. We have the accountancy and the legal services in the north, but the capital markets, merchant banks, money transmission and, of course, government connections are all in the capital." However, he feels that there is a case for more government agencies to move northwards as well. One future candidate could be the Registrar of Friendly Societies (which includes the Building Societies Commission, the regulatory authority for the industry) if some of the main southern societies move into the banking world.

Perhaps, not surprisingly, a lot of time is spent at Halifax discussing the accessibility of London. "If I need to," says Mr Birrell "I can be anywhere in London by 9.45am very comfortably."

It is hard not to suspect that if Halifax had decided on a stock market flotation this summer, the temptation to move at least part of its headquarters operation out of Yorkshire and down to London would have become irresistible. Any move would, of course, be very unwelcome locally: it would have a major impact on the town of Halifax, where the Society is one of the largest employers.

As it is, Halifax's role as a low-cost provider of high quality mass financial services seems to be partly shaped by its distance from the capital. The two other largest building societies, Abbey National and Nationwide Anglia, for example, have chosen to go along the paper-based money transmission route, issuing their own cheque book current accounts. Halifax has stuck to electronic money transmission with Cashcard, and saved itself a great deal of expense.

Not going into cheque accounts may look a bit stick in the mud, and there are those who predict that Halifax will eventually have to follow Abbey National and Nationwide Anglia and issue cheque books. But Cashcard has 3.6m users – nearly three times the estimated number of customers with cheque book current accounts from the other two societies.

For Halifax, the test of its business strategy over the last year will come next spring when its 1988 results are announced. Last spring Abbey National announced slightly higher profits on a considerably smaller asset base, a result which rankled with its northern rivals. Next year Halifax hopes that its profits will be well ahead. And while Abbey National is preoccupied with the problems of an attempted stock market flotation, Halifax will be unfussedly carrying on with the business of making money as a mutual.

David Barchard

Venture capital: sources are increasing, as powerful forces change the regional economy

Local ingredients add quality to the cake

VENTURE capital is not just a fact in Yorkshire and Humberside these days, it is a network. The development has been rapid, even surprising.

Six years ago the number of genuinely local sources of equity funding for the smaller business could be counted on one finger. It was called 3i – Investors in Industry – and it had long-established offices in Sheffield and Leeds.

Today three hands are needed for the count – and it is running out of fingers. Venture capital sources with local bases include Yorkshire Enterprise; 3i; Capital for Companies; County Natwest Ventures; Hambros Advanced Technology Trust; British Steel (Industry); British Coal Enterprise; and South Yorkshire Developments.

The London-based Development Capital Group operates in the region, as does the Manchester office of Charterhouse Development Capital. York Trust, the thrusting Leeds-based merchant bank, is also an active venture capitalist.

There is also a series of Business Expansion Funds run by Capital for Companies, which, in addition, acts as an agent for Close Investments, another London fund. In addition there are some small sums available for pump-priming start-ups.

While this sudden eruption of a venture capital industry reflects many of the changes going on in Britain as a whole, there are local ingredients here which seem to have added to the quality of the cake.

The regional economy is being driven and changed by powerful forces. In West Yorkshire there is an inherent entrepreneurship because of the local economy's broad base and mix of smaller and medium-sized firms. This has helped the search for work as unemployment has risen through loss of old industries.

In South Yorkshire and Humberside there is substantial restructuring in the wake of coal, steel and fishery closures. In North Yorkshire there is a deliberate drive to attract small high technology companies which may one day bring a different type of employment to rural acres.

West Yorkshire has an inherent entrepreneurship because of the mix of firms

All of these factors have helped create and swell a demand for capital. Importantly, there has been a big shift in the type of capital involved, as has been the case elsewhere in Britain.

In 1984, 3i's total national business was split 83 to 17 per cent between loans and equity funding. This year the equity proportion will rise to 28 per cent, reflecting a change of attitude among entrepreneurs towards raising capital by selling equity. Previously, there was a marked reluctance to give up part of a business to an equity partner.

Mr David Wilkinson, local director of the Leeds office of 3i, says that the quality of entrepreneurs is increasing, with increasingly more experienced managers coming forward and so reducing the risks to investors in the management buyouts, management buy-ins and start-ups which comprise 3i's main business.

In spite of 3i's undoubted loss of market share to its new competitors, however, its turnover is rising rapidly, which points to continuing expansion of the market.

3i has now opened a two-man office in Hull, supervised from Leeds, where it has seven investment managers. There are another four in Sheffield, under local director Mr Paul Gilmartin.

Mr Wilkinson says: "In the financial year to March 1988 Leeds and Sheffield did £24m, compared with £16m the previous year. The current year is looking as though we will be comfortably ahead of that. In terms of numbers, we are looking at 60 to 70 deals this year out of the three offices in the region."

Competition has had an unexpected effect, uncovering many privately-owned businesses which even 3i had never heard of before. The network has also enabled bigger deals to be done locally, with 3i joining syndicates with competitors such as County NatWest or Yorkshire Enterprise.

"Our management buyout fund was worth about £40m in the spring of last year. We are about half-way through it now," Mr Wilkinson says.

"It's difficult to tell how it will develop because many people don't talk openly about the prospect of a buyout in case it goes wrong and they get fired. If you do a seminar on buyouts in Hull many people there will all be called Mr Smith and come from Leeds. They would not go to one in Leeds."

The effect of all this extra activity is also showing in the value of business done. "The size of deals is moving up," Mr Wilkinson says. "3i's national average is about £500,000 and we are near that, though we *are still doing a lot at the sub-*£200,000 level." According to Mr Barry Anysz, the key to the development of venture capital in the region is the increasing range of deals that can be handled locally.

He himself started in a small way by setting up Capital for Companies and running Business Expansion Scheme funds. But his attempts three years ago to get local pension managers to put money into a fund to do bigger deals failed, which is why he started acting as an *agent for Close Investments* – the company wants only deals worth £500,000-plus.

The pension managers put their money instead with London funds, inevitably helping to create jobs in the south, since local knowledge is needed for good deals and the south is where London fund managers live.

The South Yorkshire Superannuation Fund already has a venture arm

Mr Anysz, Mr Neil Balfour of York Trust, and Mr Peter Claydon of Yorkshire Enterprise are all hoping that the better returns they have been achiev*ing with their venture capital* funds in the north will make pension managers relent and help create a fund that would make the region truly self-sufficient in venture capital.

The South Yorkshire Superannuation Fund, which grew massively during the bull market and already has a venture arm in South Yorkshire Developments, is one that many of the region's venture capitalists would like a part in deploying for equity finance.

Meanwhile, Mr Anysz's business has become part of the *Huddersfield-based BWD finan*cial services group, which recently acquired Rensburg, the stockbroker operating out of Liverpool and Leeds. The effect will be to create a very strong base for corporate finance – one of Rensburg's strengths – which can be allied to more venture capital activity.

Mr Anysz is also about to launch his sixth BES fund. His record with the first five has been impressive. More than £3.1m *has been invested in* them by 350 investors and there are currently 21 live investments totalling £2.54m.

Of these, 18 are in the north *of England and 15 are in York*shire and total £1.89m. So far there have been six realisations, four of which showed substantial profits ranging from 55 per cent to 280 per cent, one incurred a 60 per cent loss and one failed.

While this may say much for the quality of the projects themselves, it is also a comment on Mr Anysz's ability to pick them. "We are very flexible and very quick," he says.

"However, this is only the beginning. The BES is a kindergarten. We see ourselves grooming companies for the USM. The BES is a sprat to catch a mackerel. There are three stages for us. The BES is seed corn. Close Investments can help with larger stuff. Then we are going to develop a corporate finance arm for even larger stuff. It's very vertical integration."

One of the most illuminating comments on the venture capital scene is provided by Mr Harry Fitzgibbons, managing director of Hambros Advanced Technology Trust. An American who had never been north of Watford, he was motivated to open an office in Halifax a year ago by Prince Charles.

Since then the trust has invested more than £1m in five northern projects, *four of them* Yorkshire and Humberside.

He says: "I had no idea it would be as good as this. We are being offered a much better flow of good deals than we have been seeing in the south and we expect to do some very good business indeed."

Ian Hamilton Fazey

PROFILE: YORKSHIRE ENTERPRISE

Council's infant attains maturity

YORKSHIRE Enterprise is on 99 and breathlessly waiting to score a century. That is the number of companies it has backed with venture capital in its first six years. It will almost certainly have broken 100 before the end of this year.

Yet here is a body which started batting in a bad light under clouds of political suspicion. It was the creation of the Labour-controlled West Yorkshire County Council, which first backed it with £1.3m of ratepayers' money, then made the money up twice more to provide a capital base of £10m.

It was known as the West Yorkshire Enterprise Board in those days. It was something new in the regions, but faced direct comparison with the politically controversial, similarly-named enterprise board created by the Greater London Council.

Conservative opponents and private sector business leaders warned that it might put money into doubtful projects, but Mr John Gunnell, the county council leader who became the board's chairman, stopped criticism dead by ensuring that it operated only on a totally commercial basis from the outset.

Mr Alan Pickering, its chief executive, was recruited from the private sector and helped ensure that commercial criteria were paramount in all investment decisions.

Where the board was controversial was in existing at all. Market forces had left Yorkshire like most British regions – bereft of a good supply of locally available venture capital from a financial community whose heart and centre of gravity were in London.

The board has proved a trail-blazer. It is now a different corporate animal because it is a company, having survived the abolition by the Government in 1986 of the county council which created it.

It made a profit of more than £900,000 in 1985-86. This has *been ploughed back to finance expansion* out of West Yorkshire across the whole region and even more investment, which explains the name Yorkshire Enterprise.

The profit level has dropped below £400,000 a year as a result but is expected to start picking up again next year as more investments are realised. Yorkshire Enterprise's record speaks for itself. It has now put £19.5m into 99 companies. Of this, £15m is still active in 73 companies.

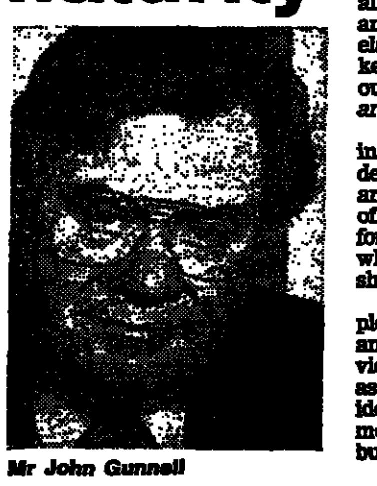
In its last financial year, which ended on October 31, it *invested £3.3m of new money* in 23 companies in the region, plus another £1m in second and third round financing of existing projects. As if emphasising its wider spread, only nine of the new investments were on the home ground of West Yorkshire.

Of the 26 realisations, 12 were either sold cheaply at a loss *as poor performers or* failed – but only three fell into the latter category. However, 14 were sold on to others at a good profit. There was a 34-1 success ratio, good enough for the funds to start to revolve, with profits funding the next round of investments.

"We are now a mature fund. Our net outlay in 1988-89 will be practically nil, despite the fact that the current rate of investment is £4.5m a year," says Mr Peter Claydon, another key figure from the outset in Yorkshire Enterprise's emergence.

One subsidiary operation is the West Yorkshire Small Firms Trust, which advances soft loans at 8 or 9 per cent. So far 130 businesses have received £788,200. Only 12 firms have failed. A key operational feature has been a link to the Government's Small Firms Service for consultancy and advice.

It is from small companies like these that Mr Claydon



Mr John Gunnell

thinks future customers for Yorkshire Enterprise's venture capital will come. While this nurturing of future profit earners makes the organisation unusual in venture capital circles, it is not its unique selling point.

That comes from the total support the investee company can call on. The original rationale was to help local companies which found difficulty in persuade London funds to risk equity involvement, but sometimes that difficulty arose quite fairly because of gaps in the management team or not enough experience.

Yorkshire Enterprise goes further than any of its competitors in its willingness to find ways of plugging gaps and making sure that managers have the right skills.

As Mr Don Moore puts it: "Our unique selling point is management as well as money. We offer training and anything else needed. We have nine investment managers with an accountancy back-up of four. There are two people working full-time on training, three legal experts, and three general managers on top."

Mr Claydon says: "We don't mind looking at propositions where the management team does not have all-round strength. We can then offer to fill that. If the team is strong all round they don't need us and can probably raise money elsewhere. We also act as brokers in bringing people in from outside who have money and *are looking to buy in.*"

Mr Moore adds: "Our training arm also does management development in companies. We are making very effective use of the Open College and have formed a consortium to exploit what it has to offer in Yorkshire.

"Open learning, where people can learn in their own time and at their own pace using video and audio cassettes and associated printed material, is ideal for management development in small or expanding businesses.

"The venture capital industry has not yet woken up to the fact that there is going to be a tremendous shortage of skills in the marketplace for people wanting to expand. We are trying to get ahead of the game."

Some venture capitalists always stay aloof from their investments, putting in the money and waiting for the returns, though this can only work where the management is experienced and needs little advice.

Others are more "hands-on", taking bigger risks but also seats on boards to watch progress and for danger signs. Yorkshire Enterprise perhaps goes well beyond this into the realms of what might be called "hands-on, feet-in".

In doing so, it seems to have served the cause of widening entrepreneurship in Yorkshire very well indeed, as well as proving that there is a marketplace for venture capital long untapped by London. The rush of others to catch up is evident in the explosion of the industry in the last couple of years.

Ian Hamilton Fazey

Recovery and opportunity

Continued from page 1

way. The deals total tens of millions of pounds.

The importance is that they help feed economic growth via the companies using the capital, as well as demanding more of the professional infrastructure as the fund managers look eventually for exit routes through mergers, acquisitions by bigger companies, or flotation.

This contributes to a bullishness which has even seen the two least widely covered areas in the Leeds infrastructure – merchant banking and stockbroking – well on the way to holding their own.